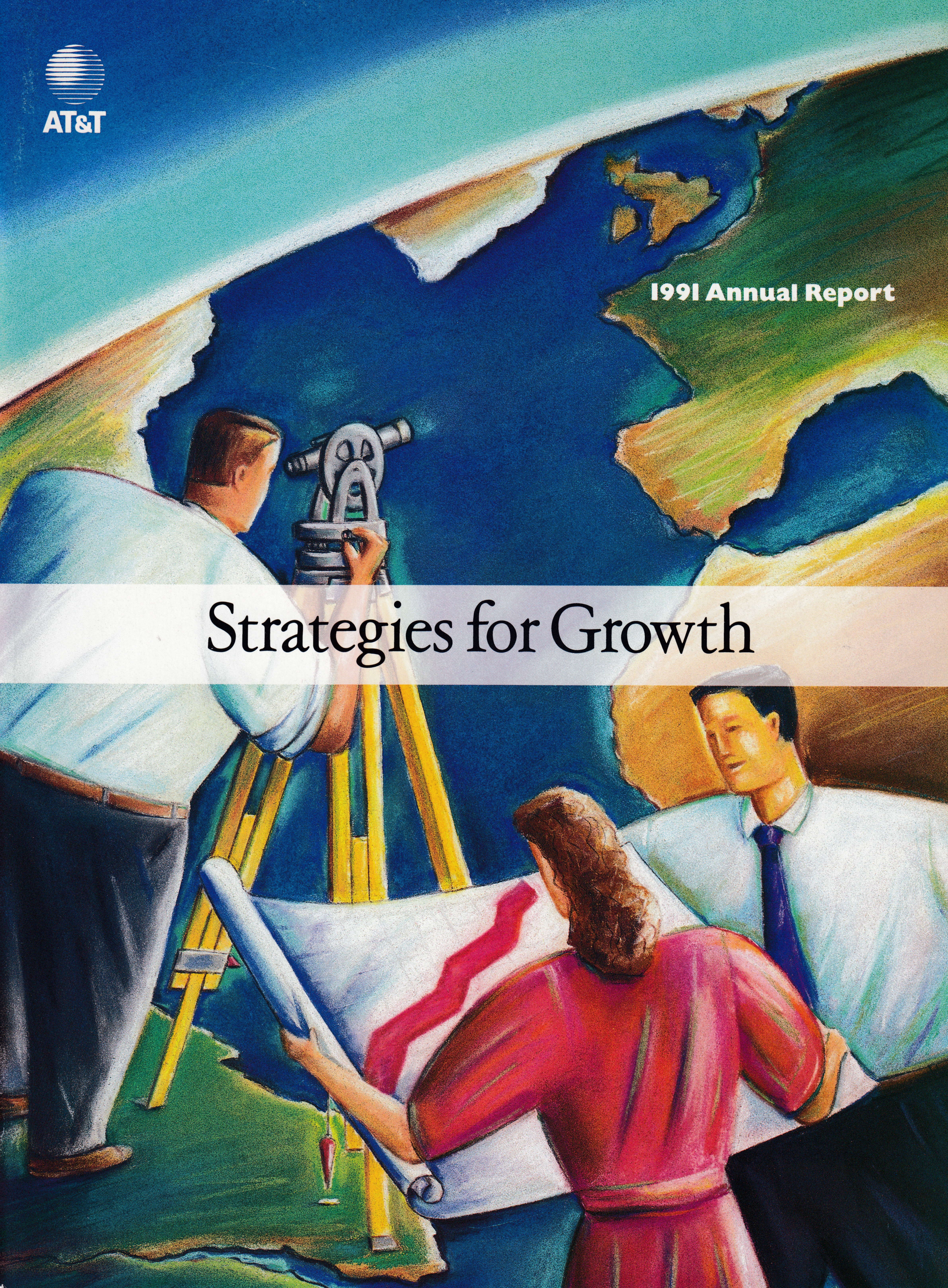
AT&T

1991 Annual Report

Strategies for Growth



AT&T's Business

AT&T is a global company that provides communications services and products, as well as network equipment and computer systems, to businesses, consumers, telecommunications service providers and government agencies. Our worldwide intelligent network carries more than 125 million voice, data, video and facsimile messages every business day. AT&T Bell Laboratories engages in basic research as well as product and service development. In addition, AT&T offers a general purpose credit card, as well as financial and leasing services. AT&T has people in almost 100 nations around the world.

AT&T's Mission

We are dedicated to being the world's best at bringing people together – giving them easy access to each other and to the information and services they want – anytime, anywhere.

About our cover and inside illustrations:
We asked five artists to imaginatively depict the strategies that generate growth for AT&T.

Contents

1991 Highlights

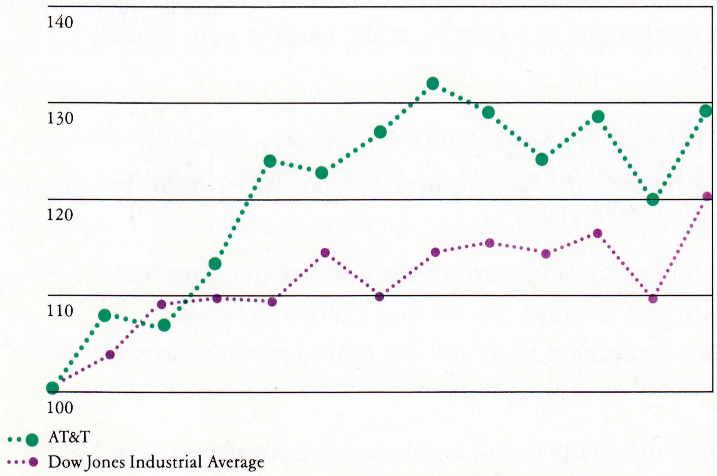
Dollars in millions (except per share amounts)	1991	1990	Percent Change
Revenues:			
Telecommunications Services	**$38,805**	$38,263	1.4%
Sales of Products and Systems	**15,941**	16,124	(1.1)
Rentals and Other Services	**6,959**	6,993	(0.5)
Financial Services and Leasing	**1,384**	811	70.7
Total Revenues	**$63,089**	$62,191	1.4%
Income:			
Operating Income	**$ 1,358**	$ 5,496	(75.3)%
Net Income	**522**	3,104	(83.2)
Earnings Per Share	**.40**	2.42	(83.3)
Other Information (at year-end):			
Total Assets	**$53,355**	$48,322	10.4%
Total Employees	**317,100**	328,900	(3.6)
Stock Price	**$ 39 1/8**	$ 30 1/8	29.9

- We continued taking actions in 1991 that will make us more competitive and help us accelerate our growth worldwide.
- Some of our actions resulted in $4.5 billion in charges that reduced net income by $2.9 billion. We also had one-time gains from selling some equity investments. Without these charges and gains, per-share earnings were $2.51.
- Because of the AT&T and NCR merger, all financial and other data for the companies are now combined for 1991 and earlier years.
- And we changed our reporting of the amounts we pay telephone companies to connect our customers to our network. The change didn't affect earnings, but it increased reported revenues and costs in 1991 and earlier years.

AT&T vs. Dow Jones Industrial Average

Relative Stock Performance

Index: December 31, 1990 = 100



AT&T stock advanced 29.9% in 1991, outperforming the Dow Jones Industrial Average.

A Letter from the Chairman

Dear Shareowners: Looking back at 1991, it was a good year but not a great year for AT&T. Parts of our business did better than others, and economic conditions helped none of them. Because of charges to earnings that we took primarily to restructure some of our operations for the future, our profits declined substantially. Without the charges and several one-time gains, however, our earnings for 1991 increased to $2.51 per share. Detailed information on our results starts on page 18.

Even with the recession and tough competition, our communications services businesses are growing at a healthy pace. In addition to being competitive in our prices, we are adding new value to our service offerings.

AT&T Network Systems, a $7.5 billion player in the world telecommunications equipment market, is making inroads in such countries as Italy, Spain, the Netherlands, Mexico, Indonesia and Poland. At the same time, it remains the leading supplier of network equipment in the U.S.

Our consumer telephone products unit, once a money loser, is contributing strongly to company profits. Our microelectronics business is on a near-term turnaround track to profitability. Financial services, including the new Universal Card and AT&T Capital Corporation, have developed into major success stories.

Determined to grow Short-term profitability is important, but long-term growth is essential. AT&T is determined to grow in the U.S. and in markets around the globe. We have set our long-term planning sights on an average annual earnings growth rate of at least 10 percent.

By early in the next decade we hope to be getting half of our revenues from international markets. It is a formidable challenge, but that's what we are reaching for. We will grow internationally by offering a wide range of communications services and equipment that enable any AT&T customer, anywhere in the world, to complete transactions easily and efficiently, and by designing, engineering and managing end-to-end networks for customers on a global basis.

Growth will come, too, from successfully assisting customers as they integrate computing and communications to serve their business and personal needs. That's what our merger with NCR Corporation, now a wholly owned AT&T subsidiary, was all about. For example, we are linking our competency in networking with NCR's capabilities in computers and transaction processing. NCR, with its substantial presence in more than 130 countries, is also helping us to accelerate the globalization of AT&T.

Wireless communication technologies offer additional growth prospects. So, too, does video technology. In that regard, we see our new AT&T VideoPhone 2500 as a first step toward bringing the benefits of visual communications to the marketplace.

Looking ahead, there also is the potential for growth from parts of the business that currently are not contributing to earnings. It was with that in mind that we took charges to earnings to restructure our business communications equipment units and our related product distribution operations.

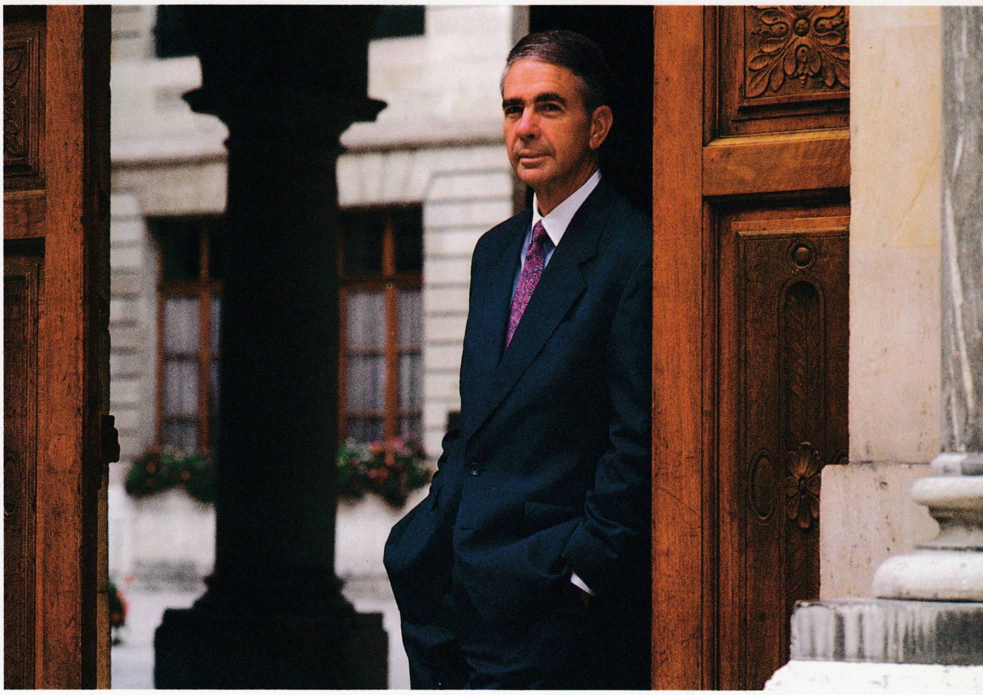
Some things–the economy, for example, but also trade issues, legislation and regulation–can affect our profitability and our aspirations. On the subject of international trade, it is important that we be allowed the same freedom in other countries to sell our products and equipment as other companies enjoy in the U.S., where telecommunications services and equipment markets are wide open. That freedom exists in some countries, but not in others.

Legislation at issue Legislation is pending in Congress to remove the manufacturing restrictions imposed on the divested Regional Bell Operating Companies by the 1982 Consent Decree. If that restriction is removed, the RBOCs–which still have a monopoly in local exchange service–can align themselves with equipment makers from outside the U.S. to the detriment of AT&T and this country's telecommunications equipment manufacturing industry.

There is an irony to the fact that this is the tenth anniversary of the consent decree that led to the breakup of the Bell System. A decade later, AT&T is the only long distance supplier still hobbled with outmoded regulations.

Two other issues deserve mention. One is network service reliability. By almost any measure, AT&T's long distance network is the world's most reliable. The busiest calling day of 1991 was, as usual, the first Monday after the Thanksgiving weekend. We handled nearly 158 million calls that day, and all but 211 of them went through on the first try. That's typical of the AT&T network. Yet in 1991 we encountered two serious service disruptions that reminded us, if we needed reminding, how much the public depends on us.

Bob Allen in Geneva, Switzerland, where AT&T was a major participant at the Telecom '91 international telecommunications exhibition and symposium.



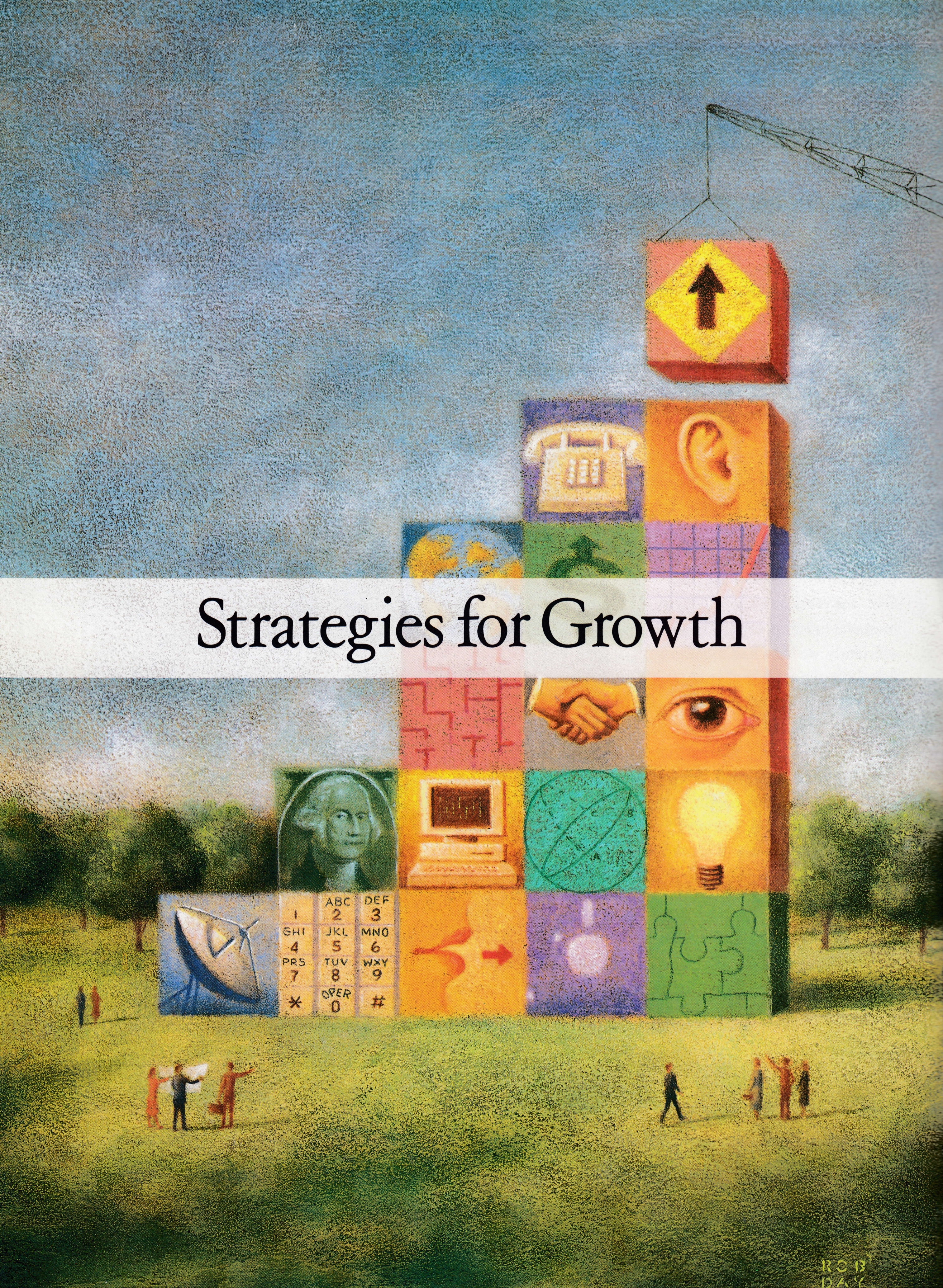
The other issue is jobs. As we prepare to enter bargaining with the labor unions that represent many AT&T employees, we wish that we could offer a guarantee of career security to those employees who want that. Over the years, as we have sought to operate more competitively and efficiently, we have had to reduce jobs to accommodate changes in technology, the marketplace and the economy. This has created hardships for some employees and we regret that. But the truth is that we can employ only as many people as it takes to effectively do the work available. Beyond that we can take those extra steps that ease the burden of the people affected by job cuts–and we are second to no other company in doing that.

In recent years we have concentrated on reshaping, refocusing and resizing AT&T. We have now set our sights on the kind of company we want to be in the 1990s and beyond–and on what it will take to achieve that vision. The pages of this annual report outline the road map we are following.

Bob Allen

Robert E. Allen
Chairman
February 7, 1992

Strategies for Growth

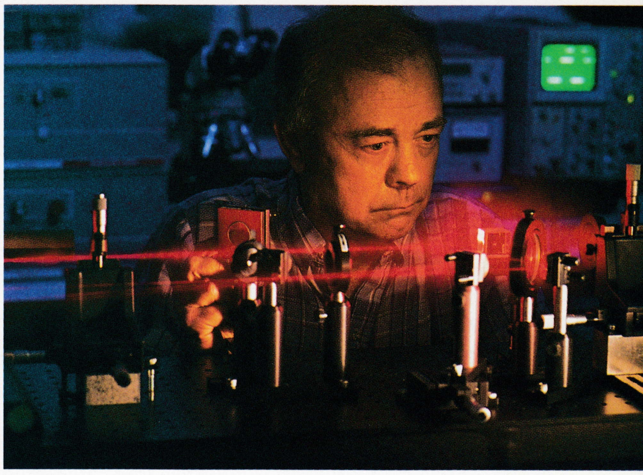


Growth. Parents measure children for it. Farmers harvest it. And businesses strive for it. To grow is to remain vital. To stay in tune with the potential of technology and the dreams of people. To seize opportunities. AT&T is firmly committed to growth. Growth of existing businesses. New business in new places. Growth in revenues, earnings and shareowner value.

With our goals for growth come well-honed strategies to achieve them: to firmly establish AT&T as a truly global company; to strengthen and build on leadership in our core businesses; and to become the world leader in the area of networked computing, where the technologies of computers and telecommunications converge.

The technology engine A stream of advanced technology from AT&T Bell Laboratories powers our growth, making our customers' lives easier and adding economic value to their businesses. Creative minds are developing simple new ways for customers to interact with our products and services by speaking, listening and seeing. Computers will one day understand 20,000-word vocabularies (as many as most people), and will respond to voice commands in addition to keyboards.

Bell Labs Researcher Sam McCall designed the world's tiniest lasers (10,000 could fit on the head of a pin), an advance that could one day be applied in leading-edge switching and computing technology.



Our scientists are packing ever more power onto silicon chips and harnessing compression and other technologies that integrate such functions as telecommunications, computing, facsimile and television for people at home, in the office or on the move. For example, an office worker will use a desktop machine to converse with a colleague a continent away in full-motion video while sharing financial spreadsheets. In order to make new information and entertainment services possible, Bell Labs researchers also are developing high-speed digital switching and transmission technology that will carry voice, data and video over the same line.

We see tremendous growth potential in all areas of wireless communications. We're already a leading supplier of infrastructure equipment for wireless systems. We now sell our own line of cellular phones. And we're testing the feasibility of a network for wireless, pocket-size phones. The network uses high radio frequencies already licensed to AT&T for other purposes, as well as existing AT&T radio towers. We intend to become the market leader in wireless and personal communications services.

We formed AT&T Ventures Corporation to establish new businesses based on applications of AT&T technology that address markets outside the scope of existing business units. Initial areas of pursuit include large-scale resource allocation systems, the translation of software applications across incompatible computer architectures, and "smart card" systems.

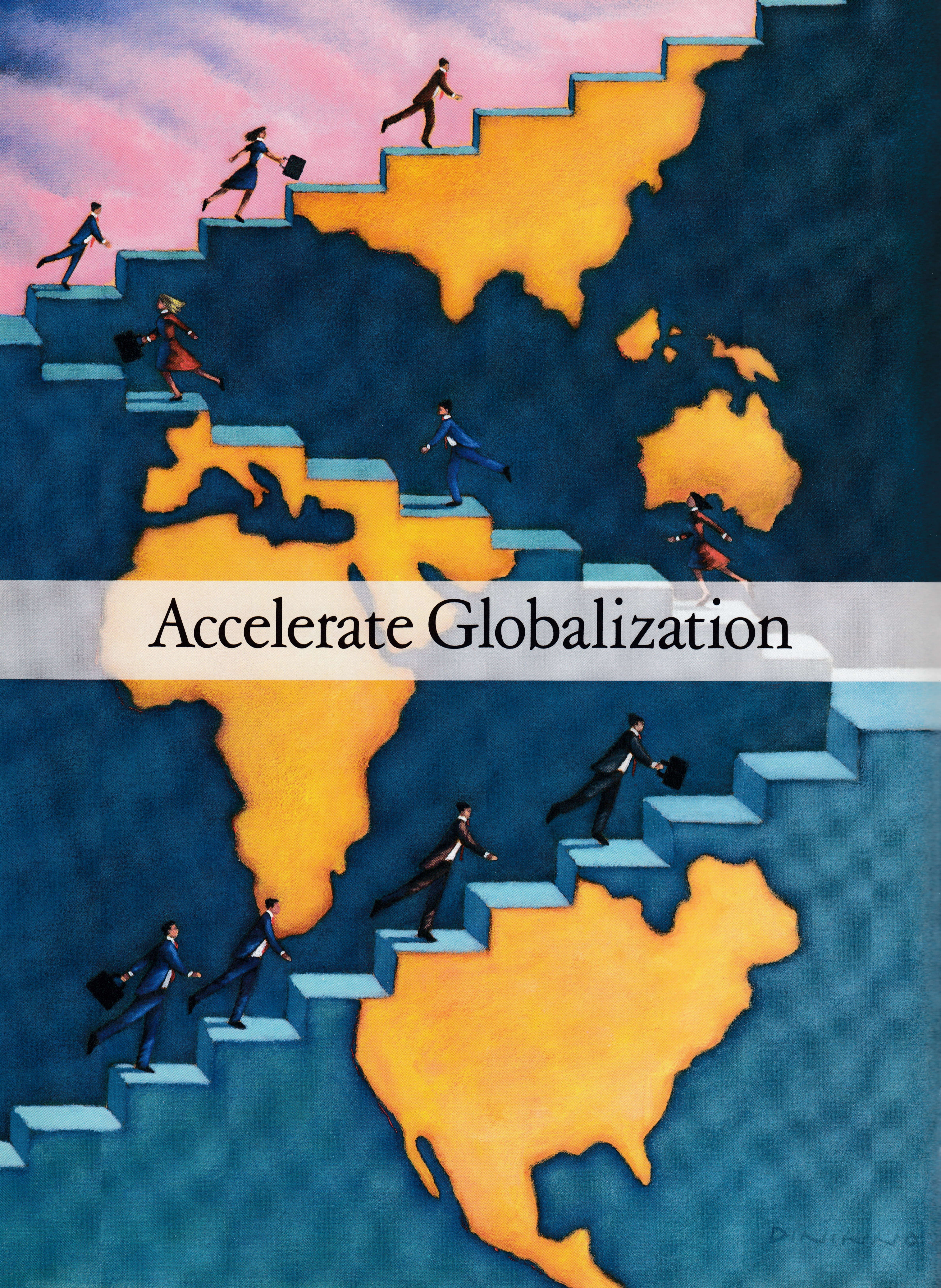
Current fiber-optic transmission systems can handle twice the number of calls they could just two years ago.

Optical technology could produce a single switch with capacity equal to the 100-plus switches in AT&T's network.

AT&T has invested $15 billion in research and development in the past five years.

The number of components being put on a single semiconductor chip doubles every 18 months, and may reach a billion by the year 2000.

Accelerate Globalization



Serop Nersesian beams as the call from Chicago comes to Yerevan, Armenia. "Hello, cousin! Eench beh-ses?" The Iron Curtain has lifted. The Soviet Union is history. Yet communication with Eastern Europe remains frustratingly difficult. Armenia, however, is out in front as the first former Soviet republic (except for the city of Moscow) with AT&T direct-dial service, which was made possible by an AT&T 5ESS® international gateway switch and digital transmission facilities.

Demand for information – when, where and in the form people want it – is spurring a global information revolution. To reach a worldwide marketplace, multinational companies demand communications services that transcend boundaries. AT&T has the unique combination of resources and resolve to enable customers the world over to access a gold mine of information. Delivering on this promise means enormous growth potential for AT&T. International business now accounts for about one-fourth of our total revenues. Our target is that by early in the next decade, half our revenues will be generated internationally.

To become a leading global enterprise, AT&T is forming partnerships, making strategic acquisitions, increasing our international presence, making and selling our products in more and more countries, and offering services that span the globe. We sharpened our focus on international growth by naming Vice Chairman Randall Tobias to direct all overseas activities and by restructuring our communications services group to address businesses and consumers on a global basis. We made our first investment in ownership of another country's telephone company when we joined a consortium led by GTE in a successful bid to buy part of Venezuela's CANTV. And early in 1992 we formed a joint venture that will build, own, operate and modernize much of the communications network in Ukraine. Our partners are the PTT Telecom of the Netherlands and the State Committee of Communications in Ukraine.

Saudi Arabia is one of 21 countries in which AT&T telephone systems for small businesses are distributed.

NCR Corporation brought us a rich dowry of international business. A major global presence, especially in Europe and Japan, NCR derives more than 60 percent of its revenues from outside the United States.

Hello world Communication between the U.S. and other countries is expanding by 15 to 20 percent a year. To serve this burgeoning market, four AT&T cable ships crisscross the seas with cables of hair-thin glass fiber of amazing capacity. When the TAT-9 cable under the Atlantic goes into service in 1992, it will handle 80,000 transmissions at one time and have the capacity to carry in one day what the first cable, installed in 1956, carried in 20 years. In 1991 AT&T signed agreements to place two more transatlantic cables with the same capacity. And a transpacific cable owned by AT&T, KDD of Japan, and other carriers will deploy new optical technology that will increase capacity to some 600,000 simultaneous calls when it begins service in 1995.

Some 50,000 AT&T employees work in about 100 countries outside the U.S.

Americans spent some 10 billion minutes on the phone to other countries in 1991—more than 40 minutes for every person in the U.S.

AT&T international long distance reaches all the world, except where government policies prohibit: Vietnam, North Korea and Cambodia.

Undersea cable systems placed by AT&T could circle the earth four times at the equator.

The world telecommunications equipment market is expected to more than double to $192 billion by the end of the decade.

The global messaging market is red hot, worth $3.25 billion in 1991 and growing by 40 percent a year. AT&T EasyLink Services provides electronic messaging and telex services to and from some 160 countries. In 1991 we opened a computer center in Ontario to handle electronic messaging services for customers throughout Canada. A Brazilian firm now distributes AT&T EasyLink services in that country. And our services are the primary offering of the Hutchison AT&T Network Services joint venture in Hong Kong.

AT&T services are increasingly designed for global businesses and globe-trotting consumers. Convenient dial-up digital service used for video conferencing is now available to 15 countries. AT&T packet data transmission extends to about 100 countries. Virtual private network service, providing the advantages of private-line service and cost savings over direct-dial service, links the U.S. with nine countries. The expansion of this service is hampered, however, by lack of common international signaling standards. We continue to encourage acceptance of these standards to meet our customers' needs. International cooperation is increasing. For example, we reached a significant network management agreement with STET of Italy that will improve call completions into that country.

High in Mexico's Sierra de Juárez mountains, AT&T directs placement of fiber-optic cable as part of a $130 million project to provide 60 percent of Teléfonos de México's backbone fiber network.

In 1991 we extended our popular USADirect® service to more than 100 countries, allowing callers to easily reach an AT&T operator in the U.S. for completing calls. We also made AT&T Calling Cards available to U.S. visitors from certain countries who have Visa or MasterCard accounts.

Accounting rates used by the world's phone companies to reimburse each other for international calls are often far in excess of actual costs. AT&T, backed by the Federal Communications Commission, continues to negotiate with authorities in other countries to bring these rates down, which would benefit customers and stimulate calling.

Push for modernization To secure their economic futures, countries are upgrading and expanding their telecommunications systems. AT&T Network Systems International, which serves Europe, the Middle East, Africa and other selected markets, recorded $960 million in sales in 1991. The Polish telephone company contracted for digital switching and transmission equipment and a nationwide network management system. An NSI subsidiary also won a three-year $80 million contract for a network management center in Belgium. Similar centers were installed in France and the Netherlands. Also in the Netherlands, a trial of fiber to the home was successfully implemented in conjunction with Philips and PTT Telecom of the Netherlands. In partnership with Italtel, NSI sold an intelligent network to Italy's telephone company, SIP. In Spain, AT&T Network Systems España, a joint venture with Amper, delivered 350,000 lines of digital switching for the Spanish telephone company.

AT&T Paradyne sells data communications equipment in almost 50 countries.

Federal Systems Advanced Technologies added to its secure phone and data systems business by buying a Swiss unit of Gretag.

Our flagship Definity® communications system is available in 25 countries today and should be in 40 countries by 1994.

The AT&T Spirit® system for small businesses is the market leader in Hong Kong, where more than 10,000 systems are installed.

AT&T products for small businesses are sold in 21 countries (including Russia) and should be in 40 nations by 1995.

AT&T Consumer Products and a German distributor are marketing a line of phones designed for the German market.

Sales also were strong in the Pacific Rim and Latin America. These include a contract valued at $300 million for NSI to provide Indonesia an additional 400,000 phone lines; about a million new lines of 5ESS switching for Taiwan, sold through our joint venture in that country; a gateway switch for Brazil; switching and operator service equipment for Mexico; and switching, cellular and cell-site equipment in the Dominican Republic.

We intend to become a world leader in supplying wireless infrastructure equipment for mobile systems and personal communications networks, which increasingly will be served by our 5ESS digital switch. Eventually, 5ESS switch owners, worldwide, will be able to provide their customers with access to multiple networks using pocket-sized portable phones. In 1991 we reached a significant agreement to provide microwave radio equipment for a cellular service operator in Germany, our first major wireless business in Europe.

Making our way Establishing factories around the world can open new markets to us and increase our global presence. AT&T Consumer Products began producing telephone answering systems at a new factory in Guadalajara, Mexico, and announced plans to make cordless phones in Monterrey, Mexico, and at a new facility in Indonesia. AT&T Microelectronics began making electronic power systems in the United Kingdom for European customers. AT&T and our venture partners now manufacture in more than 30 countries, primarily for sales abroad.

From Paris to Paducah—AT&T USADirect® service completes calls by linking callers in some 100 countries, such as this American college student studying abroad, with an AT&T operator in the U.S.

Strategic alliances with multinational companies also open international markets and spread the cost of research and development. For example, with Japanese firm NEC, AT&T Microelectronics is developing a chip manufacturing process that will advance hand-held digital phones, computer disk drives with all the electronics on a single chip, and economical signal-processing solutions for advanced television technology. Global expansion of our microelectronics business is on the fast track. 1991 revenues from international sales were two-thirds greater than in 1990.

AT&T also provides value-added network services through AT&T ISTEL in the United Kingdom and AT&T JENS in Japan.

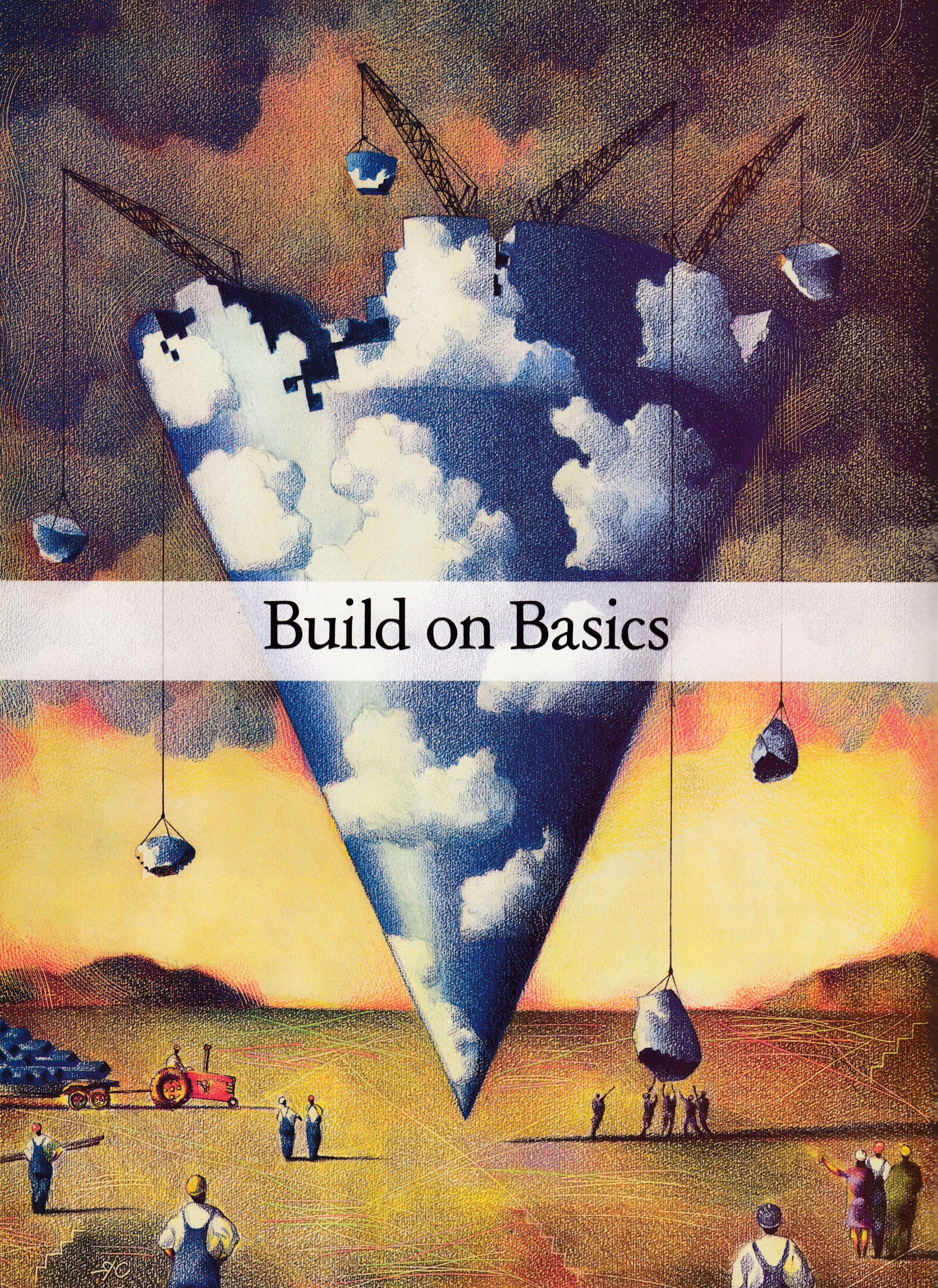
Some 40 AT&T products for consumers are available in more than a dozen countries.

Use of AT&T's dial-up international video conferencing service more than doubled in 1991.

Network Systems' 5ESS digital switch is in service in local network and international gateway applications in 26 countries.

AT&T EasyLink Services has sales and support people in more than two dozen countries.

Build on Basics



A frantic mother rushes her baby, burning with fever, to the hospital emergency room. In her panic, she speaks her native Mandarin to tell the doctors what is wrong. Fortunately, the hospital subscribes to AT&T's Language Line® Services. A phone call quickly locates an interpreter, who stays on the line to help the doctors question the mother. The diagnosis is made, treatment begins. Perhaps a life is saved.

Such dramas are playing out around the world as emergency personnel and others tap 24-hour assistance in 140 languages. With AT&T's advanced long distance network, Language Line Services interpreters can be reached from anywhere. This is one example of how we're expanding on our technology and our customer service to creatively respond to what customers want. By building on what we do well, with trend-setting products and wow-the-customer service, we generate growth.

Family reunions are as easy as a phone call with the AT&T VideoPhone 2500. The first of a number of video products and services AT&T will introduce, the phone plugs into existing phone lines and sends and receives video calls at the same price as voice calls.

Innovation excels Imaginative new AT&T products and services expand existing markets and create new ones. The advanced technology of our "smart card" will be put to work in such applications as personal banking, transportation, health care, security, and auto and equipment maintenance. The size of a credit card, the smart card conveniently stores and processes information. We formed development and marketing agreements with Vapor Canada Inc. for a smart-card-based electronic toll collection system, and with the Toyota Group's Nippondenso Co., Ltd. to develop applications and market card systems in Japan.

AT&T has staked claims in both the wireless and visual communications markets with bold new products for consumers. We kicked off 1992 by introducing the world's first full-color, motion videophone. In 1991 we entered the cellular phone market with a customer service program unsurpassed in the industry and high-quality portable and mobile phones and a transmobile model that can be moved from car to car.

We respond to the needs of specific markets. For people with disabilities, AT&T develops special products and keeps those needs in mind in all our designs. For people with hearing and speech impairments who use a telecommunications device for the deaf (TDD), we provide a relay service, in which assistants act as a "bridge" between TDD users and hearing callers. For the growing market of people who work at home, we established the AT&T Home Office Network. Charter membership, free to AT&T Long Distance customers, offers discounts on products and services, plus a quarterly publication full of tips for running a successful home-based enterprise.

In business long distance, we strengthened our market position and profitability by focusing more intently on certain markets. For small and medium-size businesses, we introduced attractively priced custom-calling and billing services. For large-volume resellers of telecommunications services, we offered a new outbound calling service. For customers needing a unified network management capability, we forged an agreement with IBM to make our two technical platforms compatible.

More than 3.7 billion fax pages are sent over the AT&T network each year.

Data communications will account for half the traffic carried over the AT&T network by 1995.

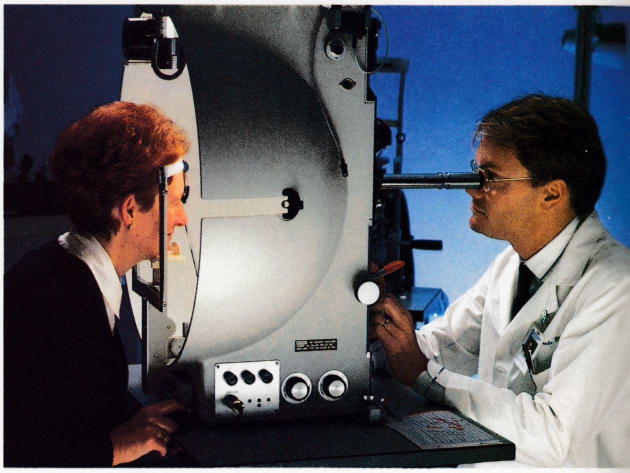
AT&T has invested more than $21 billion since 1984 to update our network and convert to digital technology.

AT&T handled a record 157.8 million calls on the Monday after Thanksgiving, the busiest calling day of the year.

Innovations small in size but big in impact came from AT&T Microelectronics. A new chip gives faster data communications capabilities to laptop and portable computers. A breakthrough integrated circuit makes it easier for computer manufacturers to build miniature hard-disk drives with very low power consumption. And new chip designs make possible hand-held, battery-operated computers that are lighter, smaller and longer-operating.

AT&T Network Systems delivers leading-edge technology to telecommunications service providers. The ISDN Home Network Controller allows telephone companies to offer customers such advanced digital services as multiline service for voice and data over a single line, intercom service, and access to home shopping and home banking data services. Advanced Intelligent Networking products make it possible for phone companies to offer new voice recognition, voice messaging, fax store-and-forward and other services over the public network. We demonstrated advances in switching via pulses of light instead of electrons. This technology will increase telephone network capacity by 16 times with equipment a fraction of the size of early prototype optical switching systems.

Redefining office communications The market for traditional voice-only office phone systems is lackluster. Growth will come from new kinds of office communications. Business systems will also deliver video and electronic messages. There will be more connections between voice and data systems. There will be advances in voice-recognition-and-response and imaging technologies that will translate documents to voice communications. AT&T intends to be a leader in these areas.



Massachusetts Eye and Ear Infirmary, part of Voluntary Hospitals of America Inc., realized savings and improved telecommunications service with AT&T Software Defined Network service. VHA, an alliance of more than 660 hospitals and their more than 200 affiliates, contracted with AT&T for equipment and service valued at $200 million.

At the same time, we must streamline operations and improve the profitability of our business equipment units. In 1991 we began a total-quality approach to redesign our process for ordering, installing and servicing large business systems, almost halving the number of steps involved. We also simplified our product line by focusing on products where we add the most value. Our small-business unit has restructured into local profit centers that are closer and more responsive to customers. We will pursue growth through new products, services, markets and technologies.

Customers were enthusiastic about new products for smaller businesses. The Merlin Legend™ system gives firms with 10 to 80 lines access to applications that simultaneously transmit voice, data, and even a video image on a single phone line. And we were the first to offer cordless phones for business: the AT&T Merlin® and Partner® cordless telephones. These products are steps toward wireless business phone systems that free customers to move about and to make office changes without the bother of cords and cables.

For larger businesses, we continue to win market share with our Definity® telephone switching system. We're also the market leader in the fast-growing field of voice mail and voice response systems. We introduced several new products geared to the needs of telemarketers. One offering links many sites to a telemarketing center, allowing agents to work at home.

AT&T Consumer Products in 1991 received Sears' "Source of the Year" distinction and 14 other awards for quality and service.

Since 1985, AT&T Consumer Products has grown three times faster than the consumer communications products market.

AT&T Paradyne has one of the largest data communications support forces in the world.

AT&T Long Distance serves 7 out of 10 public phones, 19 of the 20 top lodging chains, and 20 of the 25 largest airports in the U.S.

AT&T Telecommunications Relay Service, which assists people with hearing impairments in 14 states, handled nearly 8 million calls in 1991.

More than 2,000 hotels and motels subscribe to AT&T Language Line Services to assist non-English-speaking guests.

In the data communications market, AT&T Paradyne introduced multiplexers that reduce the cost of communication to branch offices and a high-speed dial modem that increases the amount of information that can be exchanged over the worldwide public network. The unique modem can be reprogrammed remotely, providing customers greater flexibility to meet changing requirements without changing hardware.

AT&T's Federal Systems Advanced Technologies unit designs and markets special products for government and commercial customers worldwide. New products included secure telephones and modems to protect sensitive voice and data communications for users such as the military, law enforcement agencies and financial institutions.

Service first A commitment to friendly, helpful service is a hallmark of AT&T. We're applying quality principles to improve customer satisfaction, knowing that we can distinguish ourselves from competitors by how we assist customers. For people whose primary language isn't English, we provide sales and service help through a new AT&T International Multilingual Center and through AT&T Language Line Services.

Alice Carney (left) and Nancy Faison are part of the AT&T group that launched the AT&T Public Phone 2000. The phone acts as a "portable office," allowing travelers to plug in laptop computers and portable fax machines and access electronic mail or other databases.

Attention to customer interests is behind the solid growth of AT&T's equipment leasing arm, AT&T Capital Corporation. This unit added 100,000 accounts and nearly $1 billion in assets to its portfolio, becoming the second largest equipment leasing company in the U.S.

Quality, value and great customer service also have powered the stellar success of the AT&T Universal Card. With about 12 million cards issued, it is one of the most popular credit cards in the nation. AT&T Universal Card Services went to bat for consumers in many ways in 1991, most notably through a successful effort to improve credit bureau reporting and by lowering its variable interest rate three times.

AT&T cheered another victory for consumers when the Federal Communications Commission ruled that public phone providers must allow access to callers' long distance carrier of choice. The FCC also established the five-digit access code (such as 1-0-ATT) as the standard for reaching a preferred carrier.

In 1991 AT&T American Transtech announced plans to exit the shareowner services business and to direct its resources toward opportunities in direct marketing services. American Transtech provides telephone marketing services, list and database management, direct mail and fulfillment services, market research and the administration of employee benefit programs.

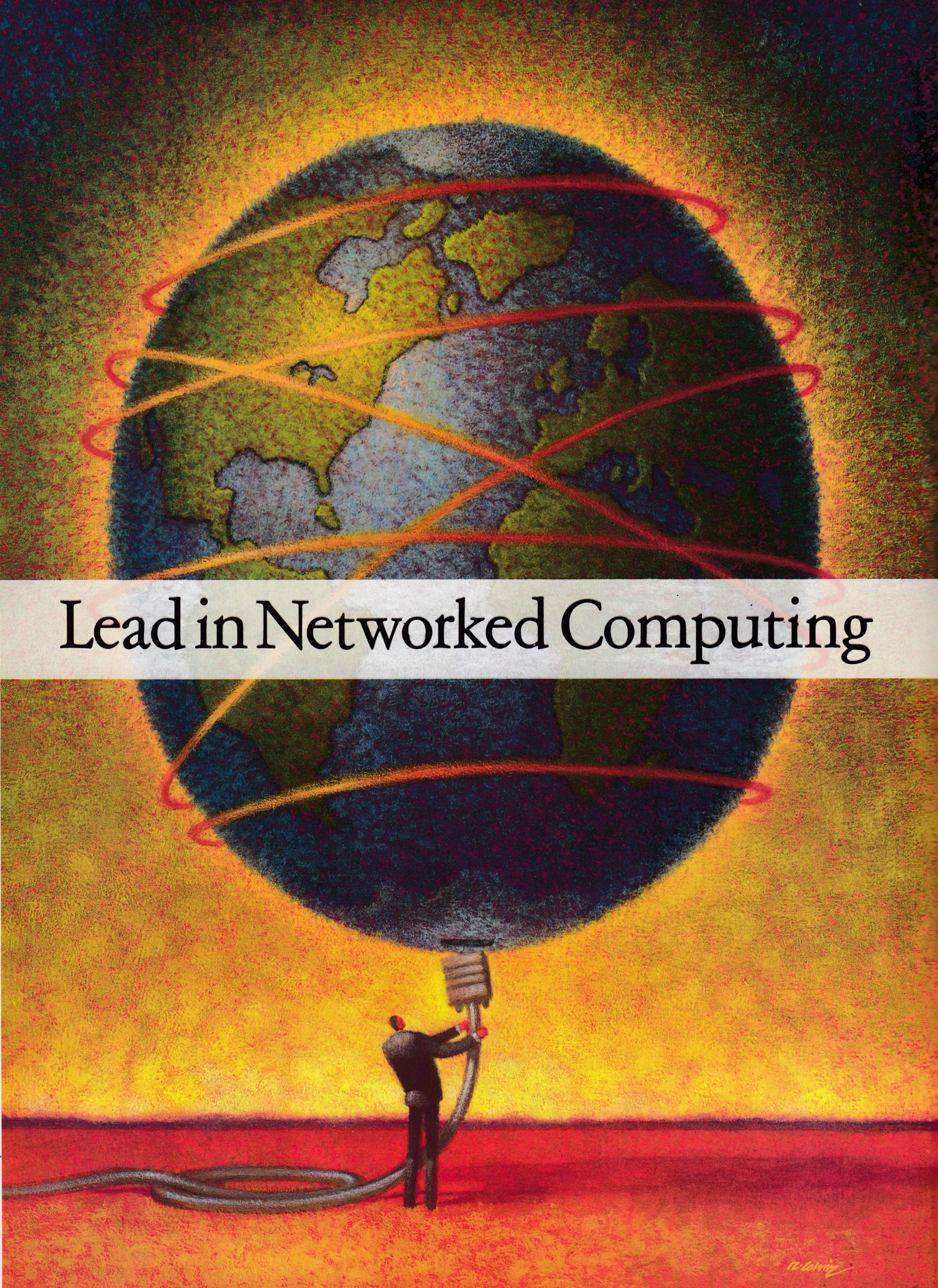
Some 20 million people in the U.S. speak a language other than English, and more than 40 million visitors travel in the U.S. each year.

AT&T's 800 Assurance Policy—the industry's first service assurance plan—won an EFFIE Award from the American Marketing Association.

AT&T offers six interstate long distance calling plans, 36 state plans and a Reach Out® World plan for savings on calls to other countries.

AT&T American Transtech is America's largest inbound and second largest outbound telephone marketing service bureau.

In two years, the AT&T Universal Card has overtaken 6,000 other issuers to rank in the top three in the nation in cardholder spending.


Lead in Networked Computing

A businesswoman inserts her credit card into an automatic teller machine in Hong Kong and requests a video link to see her banker in New York to arrange for a loan. She signs an electronic tablet and a computer verifies her signature. Then she dials a multilingual operator, using her credit card to charge a call home to her office.

This global, end-to-end service linking computer and communications capabilities is a vision that we intend to make a reality. With NCR Corporation, we can bring customers an unmatched level of service and achieve unmatched growth. Our goal, quite simply, is to become the global leader in networked computing.

Best of both worlds AT&T and NCR believe that the computer industry is moving from an era of closed, proprietary computing with incompatible machines and systems, to an era of open computing in which multiple machines, applications and networks form an integrated enterprise-wide environment. Information and computing resources are distributed over any number of diverse client and server computers. This evolution is driven by customers' needs for greater flexibility, easier access to information and more cost-effective solutions. By combining AT&T's networking capability with NCR's products and international strength, we have the ingredients needed to link departments, buildings, campuses or worldwide institutions. Plus, we have the software to facilitate information sharing and the tools to centrally manage the entire setup.

A Wal-Mart associate checks merchandise, confident that the items customers want will be there when they want them. America's largest retailer, Wal-Mart uses UNIX®-based computers, including some 900 NCR System 3000s, to track sales and effectively manage inventory.

NCR's approach is called Open, Cooperative Computing (OCC), in which diverse products and operating systems work together. NCR COOPERATION®, OCC's software foundation, allows users to gather information located throughout the enterprise. For example, accounting, manufacturing, customer service and marketing can easily share data to respond faster to market trends. AT&T's networking expertise has melded with NCR's to create an Open Network Environment offering–the most complete networking solution available.

AT&T and NCR are committed to superb customer service. NCR stands out from competitors with consistent worldwide delivery of 19 customer service options, including maintenance support, business planning, systems integration, and education and training. Service commitments to AT&T and NCR customers were kept as we merged our product lines and moved some 1,800 AT&T Computer Systems employees to NCR.

NCR is the world's leading vendor of Automatic Teller Machines, with more than 100,000 installations in 90 countries.

Fortune magazine named the NCR 3125 notepad computer one of its "Products of the Year."

USA Today uses AT&T Enhanced FAX service to provide overnight sports results to subscribers around the world.

AT&T EasyLink Services was chosen to provide electronic messaging for members of the American Bar Association.

AT&T has sold about a 20 percent interest in our software development unit, UNIX System Laboratories Inc., to international investors.

Products that dazzle In 1991 NCR released the 3600, the industry's most powerful commercial computer. Utilizing parallel processing, the NCR 3600 offers up to 2,000 MIPS (millions of instructions per second)—four times the power of the largest conventional mainframes at one-tenth the cost. A parallel processing computer divides large jobs into a number of smaller jobs that can be processed simultaneously, thereby reducing processing time. We believe that parallel computers are the way of the future. To strengthen our position in this technology, NCR in December negotiated a stock-for-stock merger valued at approximately $500 million with Teradata Corporation, a leading supplier of high-performance systems.

NCR also introduced an advanced pen-based notepad computer that can be carried wherever people work, the first of its kind to recognize handwriting. A new Document Management System converts paper documents to electronic form for storage and processing. And NCR brought out a new generation of self-service systems that offer three times greater reliability.

Students at the NCR-Tsinghua Education Center of China's leading technical university use NCR computers in the country's first Open, Cooperative Computing network that links computers from six other vendors for information and resource sharing.

The NCR line now includes AT&T products, such as the Safari® notebook computer that comes with software already loaded, has longer battery life than similar models, and can access electronic mail and information services, even without wires. The Safari's "wireless mailbox" is offered through AT&T EasyLink Services and SkyTel Corporation's satellite network.

The electronic messaging offerings of EasyLink Services bring together computers and communications. Our services can reach someone on the other side of the world through a computer, fax or telex machine, or phone. More and more companies use our electronic data interchange service to exchange purchase orders and inventory data, and to transfer payments.

Networked computing is coming home in Ohio, where Huntington Bancshares in Columbus will offer its customers the AT&T Smart Phone to pay bills, transfer funds, check account balances and access information services. Developed and marketed by AT&T Network Systems, the Smart Phone acts like a computer. The phone, the interacting systems to which it connects, and the long distance network carrying its signals are a hint of the networked-computing solutions that will become a part of our lives.

NCR fields an extensive service and support network, with 22,000 people in 1,300 locations serving 130 countries.

With 15,000 sites on our FTS2000 network, the U.S. Department of Agriculture is our largest electronic mail customer.

Bancomext, the Mexican government's export bank and our largest WaveLAN customer, is using an NCR System 3000 to integrate its computers.

NCR's 3125 pen-based computer garnered *BYTE* magazine's Award of Distinction for its innovation, superior performance and price.

Corporate Citizenship

Sandy Smith is part of the "sandwich generation." She cares for an elderly wheelchair-bound mother and a preschooler. Sometimes she feels caught in the middle, but Sandy, who works for AT&T in Orlando, and her husband get help from two AT&T-funded programs. Twice a week, a trained volunteer from the Community Care Corps visits Sandy's mom to chat, help around the house, or take her to the doctor. And each day, Sandy drops off her son at an AT&T-funded child-care center that she found through a company referral service. AT&T work and family programs like these have been commended by the U.S. Department of Labor.

Our tradition of social responsibility extends beyond our commitment to employee welfare. When we act to protect the environment, improve education and health programs, celebrate diversity and stimulate artistic expression, we invest in the future of our communities and tomorrow's work force – in essence, the future of our business.

AT&T's support of nonprofit institutions reached nearly $60 million in 1991, including the donation of computer equipment valued at $22 million to colleges and universities. As our primary philanthropic arm, the AT&T Foundation supports education as well as projects in health, social action, public policy, and the arts and culture. The Foundation's $3 million "AT&T Teachers of Tomorrow" program helps prepare teachers for urban schools. AT&T aids science, engineering and manufacturing technology projects at the university level and seeks to increase the numbers of women and minorities in technical fields. For example, we supplemented cash and equipment donations to historically black universities with the loan of two dozen AT&T Bell Labs scientists. And the Foundation awarded its largest grant ever – $3.7 million – to enhance the libraries at 41 member colleges of the United Negro College Fund.

AT&T funds programs in 10 cities to address problems of teen pregnancy. At a Plainfield, N.J., high school, where this mom attends classes while her son is cared for in an on-site center, the program helps teen parents finish school and acquire vocational and parenting skills.

AT&T people provide the energy for corporate citizenship. They gave $26 million to nonprofit organizations through payroll deductions and the employee matching gift program. They raised money and volunteered as mentors to students and as care givers to the aged and disabled – many through involvement in the Telephone Pioneers of America.

One with the environment We live on a "global commons," where our actions affect others. Committed to protecting the environment, we've taken aggressive steps to reduce waste and increase recycling. When the U.S. Environmental Protection Agency asked manufacturers to voluntarily reduce toxic emissions, AT&T accepted the challenge. We were the first company to meet both 1992 and 1995 goals, cutting by two-thirds our emissions of 17 chemicals. We're making good progress on our own goals: eliminating ozone-depleting chlorofluorocarbon (CFC) emissions from manufacturing operations by year-end 1994, and cutting toxic air emissions by 95 percent by 1995. Twelve AT&T plants around the world are already CFC-emission free. Our CFC-reduction efforts earned a U.S. Presidential Citation in 1991. Recycling is stressed in our offices as well as factories. And we're using more recycled paper, including for this annual report.

AT&T, anticipating and responding to changes in technology and marketplace conditions, is a much different company than it was just a few years ago. Some changes were very public and noticeable, such as the merger between AT&T and NCR. Other fundamental changes took place more quietly and over time.

We put in place an organizational structure that makes it easier for us to meet customer needs and compete more effectively. We are changing our financial processes and systems to support the new structure and to provide better information to manage our business.

We found and took advantage of cost efficiencies, reducing the size of some operations and redeploying resources to growing areas in our business. At the same time, we held or improved our market position in all our core businesses.

We focused on networked computing and won major contracts to supply information systems. Our merger with NCR gives us the critical mass to be a leader in implementing enterprise-wide information movement and management systems based on open standards for computing and communications.

We established successful businesses and manufacturing and sales operations outside the United States. NCR contributed a significant global presence developed over its more-than-100-year history. We also generated substantial revenue growth from product exports and international telecommunications services. As a result, AT&T enhanced its position as a multinational company and gained a foothold in many markets that are growing faster than those in the United States.

Financial Objectives and Strategies for the Future

AT&T management has ambitious targets for certain financial measures, and strategies to meet those targets. The targets are:

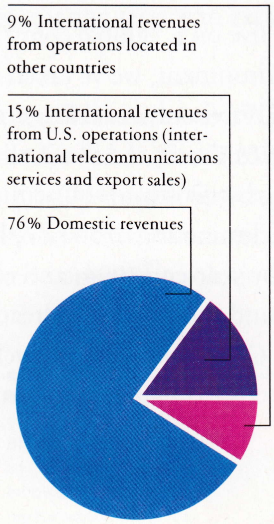
- To achieve an average annual earnings growth rate of at least 10 percent and a return on equity exceeding 20 percent.
- To derive half our revenues from international activities by early in the next decade.
- To achieve long-term revenue growth that exceeds that of the information movement and management industry as a whole.

While our success in achieving these objectives will depend on many factors—including competition and changes in technology—we are confident that we have identified the right strategies. Globalizing our business involves a significant investment of our resources, but is necessary to succeed and grow in the industry. Our growth will also be aided by partnerships, joint marketing agreements, and mergers and acquisitions.

The key financial objective is to build shareowner wealth. To do so, we are guided by the following principles:

- Each AT&T business unit is expected to reach and maintain a premier position in its markets, to contribute to AT&T's success on a stand-alone basis and to complement the operations of other business units. Similarly, each support division is expected to become "best-in-class," acting as a partner with the business units to serve our customers and achieve financial objectives.
- Allocation of capital resources to projects is based on rigorous analyses of profitability, efficiency and reliability. New projects are expected to earn a return that exceeds the cost of capital, unless the expenditures are necessary to meet safety, environmental or regulatory requirements.
- In addition, we intend to maintain our investment-grade debt ratings so we can continue cost-effective access to worldwide financial markets. We determine our debt financing and other aspects of our financial condition consistent with meeting this objective.
- We review the level of our common stock dividend each quarter in light of sustainable earnings, the current rate of inflation and competitive dividend yields. We target a dividend payout of between 40 and 50 percent of sustainable earnings.
- And we commit to report and explain our financial condition and results of operations in an accurate, timely and informative way to help our current and prospective investors make investment decisions concerning AT&T.

1991 International and Domestic Revenues
in Percentages of Total Revenues



Change in Reporting of Revenues and Costs

To provide a clearer and more typical display of revenues and costs, we adopted a new income statement presentation at year-end. Our earnings were not affected because reported revenues and costs increased by the same amount. All periods were restated in the new format. (A comparison of the current and former presentations is shown below, and additional information about the change is included in Note (B).)

With this reporting change, our revenues from telecommunications services and rentals and other services are the total amounts we bill customers, and the related costs include all amounts we are billed by suppliers. Prior to the change, we excluded from both revenues and costs the amounts we pay telephone companies to connect customers to our network. That reporting reflected the transition period in the years following divestiture in which prices for connections and for our services were greatly reduced in accordance with a regulatory plan.

Change in Reporting Presentation

For the Year Ended December 31, 1991 (Dollars in millions)	Current Presentation	Former Presentation
Change in Presentation of Revenues		
Telecommunications services revenues	$38,805	$38,805
Less: Access and other interconnection costs		18,395
Reported telecommunications services revenues	38,805	20,410
Change in Presentation of Costs		
Cost of telecommunications services	6,881	6,881
Plus: Access and other interconnection costs	18,395	
Reported cost of telecommunications services	25,276	6,881
Gross Margin on Telecommunications Services	$13,529	$13,529

The Merger

AT&T and NCR merged on September 19, 1991. This $7.5 billion transaction was consummated by exchanging approximately 203 million shares of AT&T common stock for the outstanding shares of NCR common stock. We accounted for the merger as a pooling of interests. This means we combined the pre-merger earnings, assets, liabilities and equity of the two companies, and we are now one company. The financial statements and all related financial information, discussions and analyses in this report reflect these combined AT&T and NCR amounts as if we had always been one company. (For a more detailed discussion of the merger transaction, see Note (C).)

Net income in 1991 was $522 million or $.40 per share, compared with $3.104 billion or $2.42 per share in 1990 and $3.109 billion or $2.40 per share in 1989. Total revenues rose to $63.089 billion in 1991, compared with $62.191 billion in 1990 and $61.100 billion in 1989. In 1991, we recorded business restructuring and other charges of $4.5 billion that reduced net income by $2.863 billion or $2.21 per share. We also recognized gains from selling our investment in Sun Microsystems, Inc. (Sun) and a portion of our equity in UNIX System Laboratories, Inc. (USL), a subsidiary. Excluding these charges and gains, earnings were $2.51 per share.

The charges were recorded as a $3.6 billion provision for business restructuring and approximately $900 million in other costs and expenses, including other income – net. About $1.5 billion of the total was for changes in our Computer Systems unit. After the merger with NCR, we consolidated our computer products and systems operations under NCR management.

Charges of $1.1 billion were for changes in our distribution systems and business equipment operations. These include actions being taken by the business unit that supplies telecommunications systems to large businesses. It is reengineering its distribution, sales, installation and maintenance processes and streamlining its product line to focus on key products. Also included are actions by the business unit that supplies systems to small businesses to provide a more effective presence in local markets.

Charges of $1.9 billion cover the costs of a variety of other actions. Approximately $700 million relates to plans to use our leased and owned space more effectively and to recognize the costs of vacant space. Approximately $260 million reflects payments to eliminate a future subsidy to an Alaskan long distance company. We reduced the value of our investment in Compagnie Industriali Riunite S.p.A. (CIR) by $218 million due to a sustained decline in its market value. The remaining amounts are primarily for restructuring some of our smaller business units, and for merger-related expenses.

We believe that the NCR merger and the restructuring of some of our product business units clear the way for AT&T to become a major international competitor, a leader in networked computing, and an even more effective supplier of business communications products and systems.

AT&T's operations in the global information movement and management industry involve providing long distance telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. The revenues and costs for these operations are displayed on our income statement in three categories: telecommunications services, products and systems, and rentals and other services.

Our operations in the financial services and leasing industry involve direct financing and finance leasing programs for our products and the products of other companies, leasing non-AT&T products to customers under operating leases, and being in the general-purpose credit card business. The revenues and costs for these operations are separately displayed on the income statement.

In the following discussion and analysis, we explain trends in our results of operations and financial condition. Where possible, we identify factors that may affect future results.

Total revenues increased 1.4 percent in 1991 and 1.8 percent in 1990. The increase in 1991 reflected higher revenues from telecommunications services and robust growth in financial services and leasing revenues. The increase in telecommunications services revenues reflected continued growth in volume and our success in narrowing the gap between volume and revenue growth. Sales of products and systems declined in 1991, reflecting weak economic conditions worldwide. Growth in revenues from financial services and leasing was led by customer use of the AT&T Universal Card, where we greatly expanded the number of accounts. In 1990, increased sales of products and systems, growth in financial services and leasing, and higher revenues from rentals and other services more than offset a slight decline in revenues from telecommunications services that was largely the result of lower prices.

Total costs and operating expenses increased 8.9 percent in 1991 and 1.1 percent in 1990. Costs and expenses for both 1991 and 1990 included charges for business restructuring and other actions. (See Note (D).)

In addition to restructuring and other charges, the 1991 increase in total costs and operating expenses reflected higher selling, general and administrative expenses and increased spending on research and development as we continued to pursue growth of existing businesses and expansion into new markets. Over the same period, we reduced total costs as a percentage of revenues, showing the benefits of our continuing cost control efforts. The increase in total costs and operating expenses in 1990 similarly reflected higher selling, general and administrative expenses as well as start-up costs for credit card operations, largely offset by lower telecommunications services costs.

Also adding to the increase in costs and operating expenses over the past two years were higher expenditures for employee and retiree health care benefits. (See Note (N).) To control costs and expenses in this area, we established a cap in 1989, to be effective July 1, 1995, on the contributions toward health care coverage we will make on behalf of employees who retire on or after March 1, 1990.

We must adopt a new accounting standard for postretirement benefits by 1993. The standard requires us to accrue postretirement benefit expenses during the years employees are working and earning benefits for retirement. Currently, we expense these benefits as the claims are incurred. We expect to take a one-time charge to recognize accumulated liabilities in the first quarter of 1993, reducing net income by between $5.5 and $7.5 billion. Based on current assumptions, the new

Eight-Year Summary of Selected Financial Data*
(unaudited)

Dollars in millions (except per share amounts)
Results of Operations
Total revenues
Total costs and operating expenses
Net income (loss)
Dividends on preferred shares
Income (loss) applicable to common shares
Earnings (loss) per common share
Dividends declared per common share
Assets and Capital
Property, plant and equipment – net
Total assets
Long-term debt including capital leases
Preferred shares subject to mandatory redemption
Common shareowners' equity
Net capital expenditures
Other Information
Operating income (loss) as a percentage of revenues
Net income (loss) as a percentage of revenues
Return on average common equity
Data at year-end except last column:
Stock price per common share
Book value per common share
Debt ratio
Debt ratio excluding financial services
Employees

*Data restated to conform to current presentation.
**1991 data reflect $4.5 billion of business restructuring and other charges.
1988 data reflect a $6.7 billion charge due to accelerated digitization of the long distance network.
1986 data reflect $3.2 billion of charges for business restructuring, an accounting change and other

accounting method will reduce annual net income by between $0 and $100 million after it is adopted. (See also Note (N).)

Our operations, like those of other companies in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws. Among other matters, along with many other companies, we have been named as a potentially responsible party for a number of Superfund sites. It is difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities to AT&T. However, we believe that cleanup costs and costs related to environmental proceedings under present laws will not have a material effect on our future expenditures, earnings or competitive position beyond that provided for at year-end.

A substantial number of our employees are represented by unions. In 1992, we will negotiate new labor agreements as 1989 contracts are due to expire on May 30.

Telecommunications Services

Revenues from telecommunications services increased 1.4 percent in 1991 after declining 0.6 percent in 1990. Both years showed strong volume growth in all major markets. Total billed minutes for switched services increased 6.5 percent in 1991 and 7.5 percent in 1990. Leading the volume increases were outbound and inbound business services (WATS and 800 service families) and international services.

Revenues trailed volume growth in both years for several reasons. In January and July 1990, we made interstate price reductions, totaling $600 million on an annual basis. We also made other small price changes for both interstate and intrastate services throughout the year. In addition, customers switched to new, lower-priced services made possible by our network modernization and cost-reduction efforts. The effect of customers changing to these new services was greater in 1990 because our larger customers were the first to take advantage of the services. A third factor was the decline in revenues from private line services, a decline that is not reflected in reported volumes. This decline reflected customers shifting from analog to lower-priced digital services and from private lines to switched services.

Our telecommunications services volumes have increased each year since 1984. Over this same period, we reduced prices on basic interstate toll services more than 40 percent, largely by passing on to customers our savings from reduced access costs. Despite our volume growth, we lost significant market share during this period. However, based on estimated industry data, we stabilized our share of the total domestic market in 1991 and made progress in stabilizing our share of the international market. We anticipate continued growth in telecommunications services industrywide in 1992 and believe the growth in our telecommunications services revenues will approach the industry rate. Competition in the long distance markets now focuses much more on quality, functionality, service and the customers' critical applications than on price. This is a welcome trend and one we helped promote.

	1991**	1990	1989	1988**	1987	1986**	1985	1984	Jan. 1, 1984
	$63,089	$62,191	$61,100	$61,756	$60,530	$61,906	$63,130	$60,318	
	61,731	56,695	56,076	64,031	56,249	60,907	59,561	57,494	
	522	3,104	3,109	(1,230)	2,463	476	1,872	1,713	
	–	–	–	1	23	86	110	112	
	522	3,104	3,109	(1,231)	2,440	390	1,762	1,601	
	.40	2.42	2.40	(.94)	1.82	.29	1.31	1.23	
	1.32	1.32	1.20	1.20	1.20	1.20	1.20	1.20	
	$18,689	$18,661	$17,023	$16,394	$21,866	$22,061	$23,133	$22,167	$21,416
	53,355	48,322	42,187	39,869	44,014	43,617	44,683	43,418	39,156
	8,484	9,354	8,377	8,350	8,027	7,789	8,026	8,943	9,462
	–	–	–	–	82	912	1,457	1,494	1,523
	16,228	15,883	14,723	13,705	16,617	15,946	16,951	15,839	14,413
	3,860	4,018	3,951	4,288	3,805	3,904	4,295	3,685	
	2.2%	8.8%	8.2%	(3.7)%	7.1%	1.6%	5.7%	4.7%	
	0.8%	5.0%	5.1%	(2.0)%	4.1%	0.8%	3.0%	2.8%	
	3.1%	19.7%	21.8%	(7.2)%	15.0%	2.2%	10.7%	10.5%	
	$39.125	$30.125	$45.50	$28.75	$27.00	$25.00	$25.00	$19.50	$17.875
	$ 12.39	$ 12.46	$11.54	$10.55	$12.66	$11.91	$12.58	$12.00	$ 11.39
	48.9%	47.6%	43.0%	41.6%	36.1%	34.4%	34.5%	36.5%	40.1%
	34.7%	38.3%	36.3%	37.3%	32.5%	32.2%	32.9%	36.2%	40.1%
	317,100	328,900	339,500	364,700	365,000	378,900	399,600	427,200	435,000

Total cost of telecommunications services decreased the last two years. We have increased our productivity by modernizing the AT&T Worldwide Intelligent Network through our accelerated digitization program and other technological advances. This enabled us to reduce network operating and maintenance costs. Despite higher volumes, access and other interconnection costs declined both years because of reduced prices for connections from both domestic and foreign telephone companies. The decreased costs and increased revenues led to an improvement in the gross margin percentage on telecommunications services to 34.9 percent in 1991 from 33.0 percent in 1990 and 32.3 percent in 1989.

Telecommunications services markets are highly competitive and subject to rapid changes in technology and customer needs. In recognition of these market conditions, the Federal Communications Commission (FCC) adopted "price caps" in 1989, increasing our flexibility to respond to market conditions. As a result, AT&T is now able to compete on a more equal basis with its competitors, who are not subject to a comparable level of regulation.

In August 1991, the FCC instituted a phased-in series of additional regulatory reforms beginning with certain business services and extending later to 800 services, international message telephone services and operator services. It permitted all long distance carriers, including AT&T, to offer certain business services to individual customers on a contract or private carriage basis.

Products and Systems

Sales of products and systems decreased 1.1 percent in 1991, largely as a result of the weak economy, after increasing 5.8 percent in 1990. We anticipate higher revenues from products and systems in 1992, based on our current expectations for the economy.

Revenues in millions	1991	1990	1989
Telecommunications network products and systems	$ 7,490	$ 7,303	$ 6,782
Computer products and systems	3,667	4,120	3,938
Communications products and systems	2,852	2,837	2,742
Microelectronics products, special design products for U.S. government, and other	1,932	1,864	1,779
Sales of Products and Systems	$15,941	$16,124	$15,241

Revenues from sales of telecommunications network products and systems increased 2.6 percent in 1991 and 7.7 percent in 1990. In 1991, domestic revenues increased as higher sales to independent telephone companies, especially GTE Corporation (GTE), more than offset the decline in sales to Regional Bell Operating Companies, where line growth has slowed. The growth in sales to GTE is partly the result of a 1991 contract for cellular infrastructure equipment expected to produce $600 million in revenues over seven years. International sales of telecommunications network products and systems increased both years. Overseas markets offer significant growth opportunities and we intend to capitalize on those opportunities. Our strategy is to develop long-term customer relationships, leading to many sales opportunities in the years ahead.

Legislation is pending in Congress to remove manufacturing restrictions imposed on the divested Regional Bell Operating Companies by the 1982 Consent Decree. Because these important customers remain monopoly suppliers of local exchange services, they would be able to disrupt competitive conditions in the markets for telecommunications network products and systems if the restrictions were removed. They could form joint ventures or other alliances with equipment makers from other countries to the detriment of AT&T and other equipment manufacturers in this country. We are vigorously opposing this legislation.

Revenues from sales of computer products and systems decreased 11.0 percent in 1991 after increasing 4.6 percent in 1990. The 1991 decrease was largely a result of weak demand industrywide, principally due to the economy. The decline in international sales was worsened by a stronger dollar, as reported revenues declined more than revenues in local currencies. The 1990 increase reflected strong growth in industry-specific financial products such as automated teller machines, particularly in Europe and the Pacific.

In 1991, we were awarded a contract by the United States Department of Treasury to supply up to 3,200 high-performance computers and 50,000 workstations, as well as networking products that link the equipment. If all orders contemplated in the contract were placed, the contract would have an estimated value of $1.4 billion in sales over seven years. Currently, this contract has been suspended pending the resolution of protests filed by competing bidders.

Revenues from sales of communications products and systems increased 0.5 percent in 1991 and 3.5 percent in 1990. Partly reflecting gains in market share, sales grew both years for consumer-oriented products such as cordless telephones and telephone answering systems. We recently announced the expansion of our product line to include cellular and video telephones. Sales of business communications products and systems declined both years primarily as a result of lower demand industrywide. However, based on estimated industry data, we gained market share in 1991 for the large-customer segment and retained our market share in the small-customer segment.

Sales of microelectronics products, special design products for the federal government, and other products and systems increased 3.6 percent in 1991 and 4.8 percent in 1990. Sales to original equipment manufacturers of microelectronics components and power systems, including sales of metal-oxide semiconductors, application-specific integrated circuits and small-computer system interface products, increased strongly both years. The federal government's purchases of special design products increased both years. Sales of media and business forms, principally for automated teller machines and point-of-sale equipment, also increased both years.

The cost of products and systems declined in 1991 after increasing in 1990, primarily as a result of the changes in sales volumes. The gross margin percentage was 42.7 percent in 1991, compared with 42.8 percent in 1990 and 41.9 percent in 1989. Included in cost of products and systems in 1991 is $123 million in charges, primarily to write down impaired assets. Excluding the effect of these charges, the gross margin percentage for products and systems continued to improve, primarily as a result of cost reduction efforts and increased manufacturing efficiency.

Rentals and Other Services

Rentals and other services revenues declined 0.5 percent in 1991 after increasing 0.5 percent in 1990. The decline was largely a result of the continuing and anticipated reduction in the rental base. We expect revenues from rentals and other services to increase in 1992, as growth in revenues from services more than offsets the continuing decline in rentals.

Revenues in millions	1991	1990	1989
Computer products and systems	**$2,676**	$2,568	$2,457
Communications products and systems rentals	**1,674**	2,064	2,337
Communications products and systems services	**1,299**	1,347	1,546
Other	**1,310**	1,014	616
Rentals and Other Services	**$6,959**	$6,993	$6,956

Computer products and systems services and rentals increased 4.2 percent in 1991 and 4.5 percent in 1990. The increases were due primarily to higher revenues from hardware and software maintenance contracts and custom programming services. In addition, revenues from maintenance contracts and movement and rearrangement services are more stable than the associated product sales because of the substantial installed base of computer systems we maintain.

Communications products and systems rentals declined 18.9 percent in 1991 and 11.7 percent in 1990. These revenues have declined each year since divestiture as more customers choose to purchase rather than lease communications equipment.

Lower product sales and increased competition led to declining revenues from installation, maintenance and other services for communications products over the past two years.

Other rentals and services revenues continued to increase in 1991 after a sharp increase in 1990, primarily as a result of newer services and acquired businesses. For example, growth in 1991 revenues from electronic messaging services partly resulted from the purchase of certain assets of the Business Services Group of Western Union Corporation in December 1990. The 1990 increase also reflected the addition of information technology services revenues from ISTEL Group Ltd., acquired in the fourth quarter of 1989, and growth in miscellaneous and newer services.

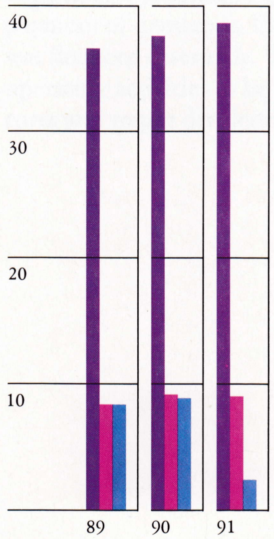
Cost of rentals and other services declined 1.0 percent compared with 1990. The gross margin percentage improved to 51.9 percent in 1991 from 51.7 percent in 1990 and 48.3 percent in 1989, reflecting benefits from earlier restructuring and other cost reduction efforts.

Financial Services and Leasing

Revenues from financial services and leasing increased 70.7 percent in 1991, driven by the continued strong growth in revenues from the AT&T Universal Card, introduced in March 1990, and the diversification and expansion of existing lease programs at AT&T Capital Corporation (AT&T Capital). More than 3.1 million credit card accounts were added during 1991, bringing the total to 7.6 million. We expect continuing strong growth in revenues from financial services and leasing in 1992.

The increase in cost of financial services and leasing for 1991 reflected higher revenues. The gross margin percentage was 22.6 percent in 1991, compared with 20.5 percent in 1990 and 43.0 percent in 1989. Both AT&T Universal Card Services and AT&T Capital improved margins in 1991, with the margin on card operations improving significantly. The total margin increase was smaller largely because the lower-margin credit

Profitability Ratios
in Percentages of Total Revenues



- Gross margin
- Adjusted operating income (operating income excluding restructuring and other charges)
- Operating income

card revenues increased as a proportion of total revenues. Aiding the margin improvement in 1991 was a lower cost of funds due to lower interest rates. The decline in margin in 1990 largely reflected start-up costs for credit card operations. In addition, operating leases, which have lower margins than capital leases during the early years, increased as a proportion of total leasing activities in 1990.

Our credit card business is not yet profitable, which caused our operations in the financial services and leasing industry segment as a whole to be unprofitable for the last two years. However, we are meeting internal targets in our credit card business and we expect it to become profitable in 1992.

Operating Expenses

Selling, general and administrative expenses increased 9.7 percent in 1991 and 3.8 percent in 1990. The 1991 increase included $501 million in charges related to our restructuring activities and merger-related expenses. We continue to protect our core revenues through increased spending on sales and support efforts. This includes billing and customer interface services as well as increased advertising and promotions. At the same time, we have continued to increase spending to expand internationally and into new markets. These increases continue to be partially offset by lower expenses for the corporate support organization.

Research and development expenses increased 6.1 percent in 1991 after decreasing 5.3 percent in 1990. Our research and development efforts for cellular technology, advanced communications services and new-generation computer products increased, and we continued projects aimed at international growth. Compared with 1989, a greater proportion of development work was related to customer support and ongoing product enhancements in 1990, some of which is classified as marketing and sales expense. In addition, more software development work was capitalized and we reduced the research staff dedicated to microelectronics products development.

The provision for business restructuring, which was $3.6 billion of the total 1991 charges, covers the estimated costs associated with force reductions and relocations, including the costs of providing separation payments to approximately 14,000 AT&T employees through January 1, 1994. It also includes costs for facility consolidations and new plans to consolidate and lease, sublease or dispose of excess leased and owned real estate. The provision also covers the elimination of future subsidies to an Alaskan long distance company and restructuring-related asset writedowns. (See also Note (D).)

In 1990, we recorded net charges of $95 million for business restructuring activities. Charges of $495 million related primarily to restructuring operations that produce microelectronics components and systems and operations that reclaim scrap metal, and resizing the product technician work force. These charges were offset by a $400 million net credit to adjust the reserves established in 1988 for costs associated with the accelerated digitization of our telecommunications network. The net credit reflects reductions in the cost of removing certain equipment, offset by additional costs for force reductions and facilities closings.

All AT&T units will continue to make adjustments to their cost structures when required. In some cases, these adjustments may include facility consolidations, disposals of assets, work force reductions or withdrawal from markets.

Other Income and Interest Expense

Other income – net decreased $6 million in 1991 and $170 million in 1990. In 1991, we recorded a $171 million pre-tax gain on the sale of approximately 19.1 million shares of Sun, our entire equity interest. Also in 1991, we recorded a $43 million pre-tax gain on the sale of approximately 20 percent ownership of USL. The sale reduced our ownership from 100 percent to approximately 80 percent. USL develops and markets the UNIX® System V operating system and software based on open, international standards for computing and communications. Through partnership with other industry participants, we are encouraging industry commitment to open computer systems based on UNIX.

These gains were offset by a $218 million pre-tax loss to reduce the book value of our CIR investment. We recognized this loss because the decline in CIR's market value, like that of the Italian market in general, did not appear to be short-term. CIR is an Italian holding company with investments in information technologies, including Ing. C. Olivetti & C., S.p.A. (Olivetti), as well as in publishing, financial services and automotive components. We acquired this investment in 1989 in exchange for our investment in Olivetti. (See also Notes (D), (E) and (I).)

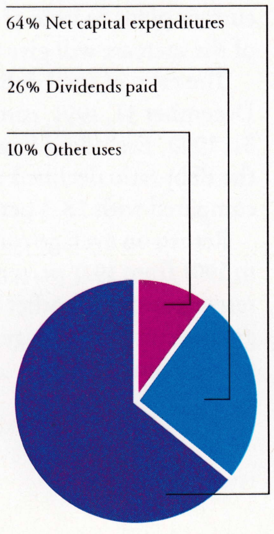
Interest expense consists of interest on debt and other accrued liabilities except for interest associated with financial services operations, which is included in costs. Interest expense declined in 1991, primarily as a result of the reversal of some accruals that were no longer required. Interest expense increased in 1990 primarily because of higher accrued liabilities, additional short-term financing needs and lower capitalization of interest costs. (See also Notes (A) and (J).)

Provision for Income Taxes

The decline in the provision for income taxes in 1991 reflects the tax benefit, for financial reporting purposes, arising from the restructuring and other charges. The provision for income taxes increased in 1990 because of higher income before income taxes and a higher effective tax rate. Income taxes are reflected at the statutory income tax rates applied to income before income taxes, adjusted for permanent differences between income before income taxes and taxable income, and for certain credits. The effective tax rate (that is, the ratio of the provision for income taxes to income before income taxes) increased to 40.9 percent in 1991, compared with 36.4 percent in 1990 and 34.3 percent in 1989. The increase in the effective tax rate in 1991 was primarily due to the tax effects of the restructuring and other charges. The increase in 1990 was largely the result of reduced amortization of investment tax credits and fewer research credits. Income taxes paid increased to $1.308 billion in 1991, compared with $1.034 billion in 1990 and $910 million in 1989.

The Financial Accounting Standards Board (FASB) issued a new accounting standard in 1987 that changed the method of accounting for income taxes. AT&T and many other companies have not adopted this standard, and the deadline for adoption was delayed again in 1991. However, the FASB plans to supersede this standard by issuing a new standard in 1992. We expect to record a material increase in net income when we change our accounting for income taxes. However, because of uncertainty about details of the new standard, we cannot reasonably estimate the effect of the change in accounting at this time. (See also Note (F).)

1991 Uses of Cash Flows from Operating Activities
in Percentages



Total Assets, Working Capital and Liquidity

Total assets increased 10.4 percent from year-end 1990 due primarily to higher receivables and deferred income taxes. The growth in finance receivables is an expected result of expanding credit card operations and leasing activities. The increase in accounts receivable partly reflects the sales and revenue mix, including the effect of terms for certain contracts. The increase in deferred income taxes primarily reflects the tax benefits of the restructuring and other charges, which were recognized for financial reporting purposes, but are not yet deductible on our tax return. Working capital, defined as current assets less current liabilities, increased $308 million from year-end 1990.

Property, plant and equipment, net of accumulated depreciation, was approximately level with 1990 as capital additions were offset by depreciation and retirements. The decrease in investments reflects the sale of Sun shares and the writedown of our CIR investment. The effect of the net pension credit was offset by the transfer of excess pension assets to cover health care costs, resulting in a slight decline in prepaid pension costs. The increase in other assets largely reflects these prepaid health care costs.

The increase in accounts payable is related to higher costs and expenses. Increases in payroll and benefit-related liabilities, other current liabilities and other long-term liabilities were principally due to restructuring and other charges. The increase in debt maturing within one year largely reflects issuances of commercial paper to support financial services and leasing operations and debt redeemed in January 1992. Long-term debt including capital leases decreased largely because of greater use of short-term debt financing. The increase in minority interests is largely due to the sale of equity interests in USL.

Net cash provided by operating activities decreased to $6.015 billion in 1991 from $6.435 billion in 1990 and $5.952 billion in 1989. The decrease in 1991 was due to working capital requirements discussed earlier, principally receivables, and increased cash requirements for payments of interest and income taxes. For the three years, cash flows provided by operating activities were adequate for capital expenditures and the payment of dividends. Our investment in finance receivables was financed externally. We expect cash flows provided by operating activities to be adequate to finance capital expenditures and to pay dividends in 1992.

Investing Activities

We reduced capital expenditures in 1991 after an increase in 1990. Net expenditures for the network decreased to $2.5 billion in 1991, compared with $2.7 billion in 1990 and $2.9 billion in 1989, when our modernization program was near its peak. In 1990, we increased capital expenditures for operating lease activities in AT&T Capital and manufacturing facilities. Net capital expenditures for the network and in total are expected to increase in 1992.

In both years, we invested heavily in finance receivables, particularly credit card receivables. These capital requirements are expected to continue increasing in 1992. Investments in other companies were a net source of cash in 1991 because of the $687 million net proceeds from the sale of our investment in Sun.

In 1989, we entered into a joint venture with GTE to develop new technology and capabilities for GTE's digital switching systems. AT&T has a 49 percent interest in the venture, called AG Communications Systems Corporation. Under the agreement, our ownership will increase to 80 percent in 1994 and to 100 percent in 2004. We also exchanged our equity investment in Olivetti for newly issued voting and non-voting shares of CIR. In 1990, we sold the non-voting shares. We will retain the voting shares until at least 1994 as part of our exchange agreement.

In 1990, we made several acquisitions, including two financial services companies and the Business Services Group of Western Union Corporation. The latter enhanced our global electronic messaging capability and the others broadened our customer base and product line in financial services. We also purchased a 9 percent equity interest in Teradata Corporation (Teradata) and agreed jointly to develop parallel processing technologies. Teradata designs, manufactures and markets high-performance computer systems and related products and services for large database management.

In December 1991, AT&T and Teradata signed a definitive merger agreement, subject to approval by regulatory agencies and Teradata shareholders, for an all-stock transaction with an estimated value of $500 million. Following the success of our joint development agreement, we believe the merger is a logical step.

Financing Activities and Capitalization

The successful expansion of our financial services and leasing business over the last three years was the main reason for the increase in total debt outstanding and for most of our need for cash from financing activities. We anticipate increasing capital requirements for the continued growth of these operations, to be met primarily through additional debt financing. (See also Notes (J) and (K).)

In 1991 and 1990, we issued debt to finance our increasing investment in credit card receivables. AT&T Capital also issued debt to finance its growth. In addition, at year-end 1991 and in January 1992 we took advantage of lower interest rates and extended maturities by refinancing a substantial amount of long-term debt.

In June 1991, AT&T and AT&T Capital received a commitment from a consortium of lenders for an $8 billion competitive advance and revolving credit facility, of which $5 billion is available to AT&T Capital. The facility is currently unused but is intended for general corporate purposes, including support for AT&T's and AT&T Capital's commercial paper.

In 1990, we established an Employee Stock Ownership Plan (ESOP) feature for our existing non-management savings and security plan. Under the ESOP feature, the plan's trust borrowed $550 million and used the proceeds to purchase approximately 13.4 million newly issued shares of AT&T common stock. The debt of the trust is guaranteed by AT&T, and the related shares are being allocated to participants over ten years commencing in July 1990 as contributions are made to the plan.

In both 1991 and 1990, we issued new shares of AT&T common stock to fulfill requirements of shareowner and employee plans. The new shares were used to satisfy all requirements for shares in 1991 and a portion of the requirements in 1990. The proceeds from the newly issued shares are being used for general corporate purposes. Also in 1991, in connection with the merger, NCR sold 6.3 million shares of its common stock (approximately 17.9 million shares of AT&T common stock after conversion) that had been held as treasury shares. The proceeds of $647 million are being used for general corporate purposes. The dilution in earnings per share from these new shares is not material.

At our annual meeting in April 1992, we will be requesting shareowners to approve a 500 million increase in the number of authorized shares of common stock. While we have no current plans to issue or use these additional shares, approval of the increase will give us additional financing flexibility.

The ratio of total debt to total capital was 48.9 percent at December 31, 1991, compared with 47.6 percent at December 31, 1990. Excluding financial services and leasing operations, the debt ratio declined to 34.7 percent at December 31, 1991, compared with 38.3 percent at December 31, 1990.

Return on average common equity declined to 3.1 percent in 1991 from 19.7 percent in 1990, primarily as a result of the restructuring and other charges. Excluding the charges and gains, return on average common equity was approximately 18.3 percent in 1991.

Consolidated Statements of Income

Years Ended December 31

Dollars in millions (except per share amounts)	1991	1990	1989
Sales and Revenues			
Telecommunications services	**$38,805**	$38,263	$38,475
Sales of products and systems	**15,941**	16,124	15,241
Rentals and other services	**6,959**	6,993	6,956
Financial services and leasing	**1,384**	811	428
Total revenues	**63,089**	62,191	61,100
Costs			
Telecommunications services			
Access and other interconnection costs	**18,395**	18,572	18,949
Other costs	**6,881**	7,061	7,096
Total telecommunications services	**25,276**	25,633	26,045
Products and systems	**9,134**	9,228	8,849
Rentals and other services	**3,344**	3,377	3,596
Financial services and leasing	**1,071**	645	244
Total costs (D)	**38,825**	38,883	38,734
Gross margin	**24,264**	23,308	22,366
Operating Expenses			
Selling, general and administrative expenses	**16,220**	14,782	14,244
Research and development expenses	**3,114**	2,935	3,098
Provision for business restructuring (D)	**3,572**	95	—
Total operating expenses (D)	**22,906**	17,812	17,342
Operating income	**1,358**	5,496	5,024
Other income – net (D) (E)	**251**	257	427
Interest expense (A)	**726**	874	720
Income before income taxes	**883**	4,879	4,731
Provision for income taxes (F)	**361**	1,775	1,622
Net Income	**$ 522**	$ 3,104	$ 3,109
Weighted average common shares outstanding (millions)	**1,293**	1,282	1,294
Earnings per Common Share	**$ .40**	$ 2.42	$ 2.40

The notes on pages 30 through 38 are an integral part of the financial statements.

Consolidated Balance Sheets

At December 31

Dollars in millions (except per share amount)	1991	1990
Assets		
Cash and temporary cash investments	$ 2,148	$ 1,875
Receivables less allowances of $936 and $518		
Accounts receivable	11,050	10,226
Finance receivables (H)	5,476	3,187
Inventories (A)	3,125	3,125
Deferred income taxes	2,311	1,315
Other current assets	503	618
Total current assets	24,613	20,346
Property, plant and equipment–net (G) (H)	18,689	18,661
Investments (I)	976	1,471
Finance receivables (H)	3,180	2,658
Prepaid pension costs (M)	3,084	3,094
Other assets (A)	2,813	2,092
Total Assets	$53,355	$48,322
Liabilities and Deferred Credits		
Accounts payable	$ 4,989	$ 4,846
Payroll and benefit-related liabilities	3,259	2,896
Debt maturing within one year (J)	7,053	5,090
Dividends payable	432	383
Other current liabilities	5,258	3,817
Total current liabilities	20,991	17,032
Long-term debt including capital leases (H) (J)	8,484	9,354
Other liabilities	2,902	1,599
Deferred income taxes	3,426	3,153
Unamortized investment tax credits	568	736
Other deferred credits	339	250
Total liabilities and deferred credits	36,710	32,124
Minority interests	417	315
Shareowners' Equity (K) (O)		
Common stock–par value $1 per share	1,309	1,275
Authorized shares: 1,500,000,000		
Outstanding shares: 1,309,352,000 at December 31, 1991; 1,275,202,000 at December 31, 1990		
Additional paid-in capital	10,624	9,497
Guaranteed ESOP obligation	(462)	(519)
Foreign currency translation adjustments	158	50
Retained earnings	4,599	5,580
Total shareowners' equity	16,228	15,883
Total Liabilities and Shareowners' Equity	$53,355	$48,322

The notes on pages 30 through 38 are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31

Dollars in millions	1991	1990	1989
Operating Activities			
Net income	$ 522	$ 3,104	$ 3,109
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,568	3,721	3,663
Provision for uncollectibles	1,233	1,048	862
Provision for business restructuring	3,572	95	—
(Increase) in accounts receivable	(2,108)	(1,422)	(1,080)
(Increase) decrease in inventories	(59)	230	431
Increase (decrease) in accounts payable	109	(197)	(223)
Net (increase) in other operating assets and liabilities	(1,019)	(108)	(753)
Other adjustments for non-cash items–net	197	(36)	(57)
Net cash provided by operating activities (A) (F)	6,015	6,435	5,952
Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $119, $97 and $124 (L)	(3,860)	(4,018)	(3,951)
Increase in finance receivables, net of lease-related repayments of $3,535, $2,952 and $1,956	(3,052)	(2,376)	(631)
Net decrease (increase) in investments	473	(342)	(514)
Acquisitions, net of cash acquired (L)	(29)	(776)	(383)
Other investing activities–net	69	(221)	(51)
Net cash used in investing activities	(6,399)	(7,733)	(5,530)
Financing Activities			
Proceeds from long-term debt issuance	1,300	1,572	917
Retirements of long-term debt	(1,196)	(1,159)	(712)
Issuance of common shares	1,164	726	117
Treasury shares acquired	(3)	(467)	(607)
Dividends paid	(1,563)	(1,496)	(1,390)
Increase in short-term borrowings–net	969	2,197	635
Other financing activities–net	5	(38)	(129)
Net cash provided by (used in) financing activities	676	1,335	(1,169)
Effect of exchange rate changes on cash	(19)	61	(32)
Net increase (decrease) in cash and temporary cash investments	273	98	(779)
Cash and temporary cash investments at beginning of year	1,875	1,777	2,556
Cash and temporary cash investments at end of year	$ 2,148	$ 1,875	$ 1,777

The notes on pages 30 through 38 are an integral part of the financial statements.

Dollars in millions (except per share amounts)

(A) Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of American Telephone and Telegraph Company (AT&T) and majority-owned subsidiaries. Investments in 20%- to 50%-owned companies and joint ventures are accounted for using the equity method. The accounts of foreign entities are included in the consolidated financial statements based on their fiscal year, ended either November 30 or December 31.

Foreign Currency Translation

For most international operations, assets and liabilities are translated at year-end exchange rates and income statement items are translated at average exchange rates for the year. Resulting translation adjustments are recorded as a separate component of shareowners' equity.

Revenue Recognition

For telecommunications services, revenues are recorded based on minutes of traffic processed and contracted fees. Revenues from sales of products and systems are recognized upon performance of contractual obligations, which is generally upon installation or shipment. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed. Finance revenues are recognized over the life of the related finance receivables using the interest method.

Research and Development

Research and development expenditures are charged to expense as incurred. The development costs of software to be marketed are charged to research and development expense until technological feasibility is established. After that time, the remaining software production costs are capitalized as other assets and amortized to product costs over the estimated period of sales. Such amortization amounted to $311 in 1991, $232 in 1990 and $197 in 1989. Unamortized software production costs were $565 and $575 at December 31, 1991 and 1990, respectively.

Interest Expense

Interest expense consists of interest on short-term and long-term debt and interest on accrued liabilities. Interest expense related to financial services operations is included in costs and amounted to $445 in 1991, $313 in 1990 and $186 in 1989. AT&T capitalized interest costs of $79 in 1991 and 1990, and $89 in 1989. Cash payments for interest, net of amounts capitalized, were $1,058 in 1991, $957 in 1990 and $812 in 1989.

Investment Tax Credits

For financial reporting purposes, AT&T amortizes investment tax credits as a reduction to the provision for income taxes over the useful lives of the property that produced the credits.

Earnings per Share

Earnings per common share is computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents represent stock options assumed to be exercised.

Temporary Cash Investments

Temporary cash investments are highly liquid with maturities generally of three months or less and are considered to be cash equivalents for cash flow reporting purposes.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in, first-out (FIFO) basis.

At December 31	1991	1990
Completed goods	**$1,837**	$1,877
Work-in-process and raw materials	**1,288**	1,248
Total	**$3,125**	$3,125

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using either the group or unit method. The unit method is used primarily for factory facilities, laboratory equipment, large computer systems, and certain international earth stations and submarine cables. The group method is used for most other depreciable assets. Gains or losses on sales of assets depreciated using the unit method are included in operating results. As assets accounted for using the group method are retired, the original cost is removed from the plant account and from accumulated depreciation.

Factory facilities and digital equipment used in the telecommunications network, except switching equipment placed in service before 1989, are primarily depreciated on an accelerated basis. All other plant and equipment are depreciated on a straight-line basis.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in acquisitions accounted for using the purchase method. These amounts are amortized on a straight-line basis over the periods benefited, principally in the range of 10 to 15 years. Such amortization amounted to $52 in 1991, $50 in 1990 and $20 in 1989. Goodwill, net of accumulated amortization, was $642 and $648 at December 31, 1991 and 1990, respectively.

(B) Reporting Changes

Change in Income Statement Presentation

Effective December 31, 1991, AT&T reclassified access and other interconnection costs to cost of telecommunications services. These costs were previously reported as direct reductions in telecommunications services revenues. Access and other interconnection costs are billed to AT&T by telephone companies that connect customers to the AT&T network. This change in presentation was made in recognition of the effects that competition and changes in regulation have had on the relationship between prices and costs for telecommunications services, and to improve the comparability of reported results in the industry. A comparable but much smaller reclassification was made for revenues and costs of rentals and other services. The change in presentation had no effect on AT&T's operating results or net income. Prior year statements of income were restated to conform to the current presentation. The table at the bottom of this page compares the current and former presentations.

Other Reclassifications

Certain amounts for previous years have been reclassified to conform with the 1991 presentation.

(C) Merger with NCR Corporation (NCR)

On September 19, 1991, AT&T merged with NCR. As a result, 71.4 million shares of NCR common stock were converted into approximately 203 million shares of AT&T common stock at an exchange ratio of 2.839 shares of AT&T common stock for each NCR share. In addition, AT&T assumed 2.9 million NCR stock options which were converted into AT&T stock options at the 2.839 exchange ratio, resulting in 8.3 million additional AT&T stock options at an average exercise price of $21.29. The merger was accounted for as a pooling of interests and, accordingly, the consolidated financial statements of AT&T have been restated for all periods prior to the merger to include the accounts and operations of NCR. Certain reclassifications have been made to NCR's accounts to conform to AT&T's presentation.

Operating results of the separate companies for periods prior to the merger follow:

	Nine months ended September 30,	Years ended December 31,	
	1991	1990	1989
Sales and Revenues			
AT&T	$42,328	$55,857	$55,098
NCR	4,324	6,334	6,002
Eliminations	(26)	–	–
	$46,626	$62,191	$61,100
Net Income (Loss)*			
AT&T	$ (176)	$ 2,735	$ 2,697
NCR	63	369	412
	$ (113)	$ 3,104	$ 3,109

*1991 data reflect business restructuring and other charges. (See Note (D).)

Net income for NCR for the nine months ended September 30, 1991 included a benefit of $13 from additional foreign tax credit utilization made possible by the merger.

(D) Business Restructuring and Other Charges

In 1991, AT&T recorded approximately $4,500 of business restructuring and other charges. These charges reduced net income by $2,863 or $2.21 per share. The charges were incurred for changes in AT&T's computer operations, for restructuring PBX operations and product distribution processes, to consolidate operations in leased and owned buildings

Comparison of Current and Former Presentations of Revenues and Costs

Current Presentation	1991	1990	1989
Sales and Revenues			
Telecommunications services	$38,805	$38,263	$38,475
Products and systems	15,941	16,124	15,241
Rentals and other services	6,959	6,993	6,956
Financial services and leasing	1,384	811	428
Total revenues	63,089	62,191	61,100
Costs			
Telecommunications services			
Access and other interconnection costs	18,395	18,572	18,949
Other costs	6,881	7,061	7,096
Total telecommunications services	25,276	25,633	26,045
Products and systems	9,134	9,228	8,849
Rentals and other services	3,344	3,377	3,596
Financial services and leasing	1,071	645	244
Total costs	38,825	38,883	38,734
Gross margin	$24,264	$23,308	$22,366

Former Presentation	1991	1990	1989
Sales and Revenues			
Telecommunications services, net (a)	$20,410	$19,691	$19,526
Products and systems	15,941	16,124	15,241
Rentals and other services	6,916	6,993	6,956
Financial services and leasing	1,384	811	428
Total revenues	44,651	43,619	42,151
Costs			
Telecommunications services	6,881	7,061	7,096
Products and systems	9,134	9,228	8,849
Rentals and other services	3,301	3,377	3,596
Financial services and leasing	1,071	645	244
Total costs	20,387	20,311	19,785
Gross margin	$24,264	$23,308	$22,366

(a) Net of access and other interconnection costs of $18,395 in 1991, $18,572 in 1990 and $18,949 in 1989.

and to recognize costs of vacant space, to eliminate a future subsidy to an Alaskan long distance company, to write down an investment and for other restructuring activities, merger-related expenses and other charges. (See also Note (E).)

The 1991 charges were recorded as a $3,572 provision for business restructuring, $501 of selling, general and administrative expenses, $123 as cost of products and systems, and the remainder as other costs and expenses, including other income–net. The provision for business restructuring includes the estimated costs associated with force reductions and relocations, facility consolidations, contractual obligations, including lease buyouts, and other restructuring activities. Charges included in other accounts are primarily for expenses related to the restructuring activities, asset impairments and merger-related expenses.

In 1990, AT&T recorded net charges of $95 for business restructuring activities. Charges of $495 were recorded primarily for restructuring operations that produce microelectronics components and systems and operations that reclaim scrap metal, and reducing the product technician work force. These charges were offset by a $400 net credit to adjust the reserves established in 1988 for costs associated with the accelerated digitization of AT&T's telecommunications network. The net credit reflects reduced costs to remove certain equipment, offset by additional costs for force reductions and facilities closings.

Management believes that the balance of reserves for all business restructuring activities of $2,792 at December 31, 1991 is adequate for the completion of these activities.

(E) Other Income–Net

	1991	1990	1989
Interest income	**$170**	$210	$250
Royalties and dividends	**55**	47	42
Foreign exchange gains (losses)–net	**6**	(36)	11
Miscellaneous–net	**20**	36	124
Total	**$251**	$257	$427

Interest income excludes interest associated with financial services operations, which is included in revenues.

In 1991, miscellaneous–net includes a gain of $171 on the sale of AT&T's 19% equity investment in Sun Microsystems, Inc. (Sun). Sun repurchased approximately 5.1 million shares of its common stock from AT&T and AT&T sold approximately 14 million additional shares of Sun common stock to an investment banking firm for resale to institutional investors. All the shares were sold at a price of $36.25 per share, resulting in net cash proceeds to AT&T of $687.

Also in 1991, miscellaneous–net includes a gain of $43 from the sale of equity interests in UNIX System Laboratories, Inc. (USL), a subsidiary of AT&T that develops and markets the UNIX® System V operating system and software based on open, international standards for computing and communications. Through partnership with other industry participants, AT&T is encouraging industry commitment to open computer systems based on UNIX. Proceeds from the sale were in cash and there were no deferred taxes provided for the gain on the sale. The sale reduced AT&T's ownership of USL from 100% to approximately 80%.

In 1989, miscellaneous–net includes a gain of $69 from the exchange of AT&T's investment of 100 million shares of Ing C. Olivetti & C., S.p.A. for newly issued shares in Compagnie Industriali Riunite S.p.A. (CIR). In the fourth quarter of 1991, a loss of $218 was recorded to reduce the carrying value of AT&T's investment in CIR due to a sustained decline in CIR's market value. (See also Notes (D) and (I).)

(F) Income Taxes

The principal reasons for the difference between the effective tax rate and the United States federal statutory income tax rate are displayed in the following table:

	1991	1990	1989
Federal income tax at 34% statutory rate	**$ 300**	$1,659	$1,608
Amortization of investment tax credits	**(142)**	(176)	(256)
State and local income taxes, net of federal income tax effect	**63**	176	199
Foreign rate differential	**54**	60	57
Taxes on repatriated and accumulated foreign income, net of tax credits	**(12)**	(4)	18
Research credits	**(5)**	(17)	(50)
Capital loss carryforward	**32**	—	—
Other differences–net	**71**	77	46
Provision for income taxes	**$ 361**	$1,775	$1,622
Effective income tax rate	**40.9%**	36.4%	34.3%

In 1991, AT&T recorded a net credit of $39 to provide income taxes on foreign earnings that had been considered permanently reinvested at December 31, 1990.

The United States and foreign components of income before income taxes and the provision for income taxes are presented below:

	1991	1990	1989
Income before income taxes			
United States	**$ 373**	$4,206	$4,109
Foreign	**510**	673	622
	$ 883	$4,879	$4,731
Provision for income taxes			
Current			
Federal	**$ 820**	$ 650	$ 529
State and local	**192**	165	209
Foreign	**302**	315	271
	1,314	1,130	1,009
Deferred			
Federal	**(829)**	614	564
State and local	**(96)**	101	93
Foreign	**140**	13	20
	(785)	728	677
Deferred investment tax credits–net*	**(168)**	(83)	(64)
Provision for income taxes	**$ 361**	$1,775	$1,622

*Net of amortization of $142 in 1991, $176 in 1990 and $256 in 1989.

Deferred taxes result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. The principal sources of deferred taxes were as follows:

	1991	1990	1989
Property, plant and equipment	**$ 511**	$572	$210
Business restructuring charges	**(1,103)**	69	214
Employee pensions and other benefits	**(26)**	144	277
Reserves and allowances	**(185)**	(42)	41
Other timing differences–net	**18**	(15)	(65)
Total deferred income taxes	**$ (785)**	$728	$677

AT&T made income tax payments of $1,308 in 1991, $1,034 in 1990 and $910 in 1989.

In 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes." Among other provisions, the standard requires deferred tax balances to be determined using the enacted income tax rates for the years in which the taxes will actually be paid or refunds received. Currently, AT&T's deferred tax accounts reflect the statutory rates that were in effect when the deferrals were initiated. The deadline for adoption is currently fiscal years beginning after December 15, 1992; for AT&T, that would be 1993. However, in June 1991, the FASB issued an exposure draft of a proposed standard that would supersede SFAS No. 96 and is expected to issue the final standard early in 1992. Although management expects the change in accounting for income taxes to result in a material one-time increase in net income in the year of adoption, that impact cannot reasonably be estimated at this time.

(G) Property, Plant and Equipment

At December 31	1991	1990
Land and improvements	**$ 684**	$ 652
Buildings and improvements	**8,229**	8,302
Machinery, electronic and other equipment	**30,979**	32,492
Total property, plant and equipment	**39,892**	41,446
Less: Accumulated depreciation	**21,203**	22,785
Property, plant and equipment–net	**$18,689**	$18,661

(H) Leases

As Lessor

AT&T provides direct financing leases for its products and those of other companies and leases its products to customers under sales-type leases. AT&T's net investment in direct financing and sales-type leases was as follows:

At December 31	1991	1990
Minimum lease payments receivable	**$3,396**	$3,107
Estimated unguaranteed residual values	**436**	361
Unearned income	**(686)**	(656)
Allowance for credit losses	**(66)**	(54)
Net investment	**$3,080**	$2,758

The scheduled maturities for direct financing and sales-type lease receivables at December 31, 1991 are as follows:

1992	$1,249
1993	927
1994	628
1995	363
1996	149
Later years	80
Total minimum lease payments receivable	$3,396

AT&T leases airplanes, energy-producing facilities and transportation equipment under leveraged leases having terms ranging from 3 to 30 years, expiring in various years from 1992 through 2020. AT&T's net investment in leveraged leases consisted of the following:

At December 31	1991	1990
Rentals receivable (net of principal and interest on non-recourse notes)	**$ 673**	$ 400
Estimated residual value of leased property	**591**	462
Unearned and deferred income	**(401)**	(321)
Allowance for credit losses	**(7)**	(1)
Investment in leveraged leases	**856**	540
Deferred taxes	**(413)**	(183)
Net investment	**$ 443**	$ 357

AT&T leases equipment to others through operating leases, the majority of which are cancelable. The net investment in equipment leased to customers under operating leases was as follows:

At December 31	1991	1990
Machinery, electronic and other equipment	**$2,588**	$3,883
Less: Accumulated depreciation	**1,284**	2,246
Net investment	**$1,304**	$1,637

Future minimum rentals receivable under noncancelable operating leases at December 31, 1991 are as follows:

1992	$378
1993	232
1994	140
1995	59
1996	5
Later years	2
Total minimum future rentals receivable	$816

As Lessee

AT&T leases land, buildings and equipment through contracts that expire in various years through 2008. Future minimum lease payments due under noncancelable leases at December 31, 1991 are as follows:

	Capital Leases	Operating Leases
1992	$ 97	$ 847
1993	103	631
1994	78	412
1995	44	341
1996	22	282
Later years	27	1,513
Total minimum lease payments	371	$4,026
Less: Estimated executory cost	1	
Imputed interest	78	
Present value of net minimum lease payments	$292	

Rental expense under operating leases was $1,461 in 1991, $1,778 in 1990 and $1,206 in 1989.

(I) Investments

Significant investments of AT&T are listed below:

AG Communications Systems Corporation–A joint venture with GTE Corporation (GTE) to develop new technology and capabilities for GTE's digital switching systems. Under the agreement with GTE, AT&T has a 49% interest in the joint venture and will increase its ownership to 80% in 1994 and to 100% in 2004.

Italtel S.p.A. (Italtel)–A manufacturer of public and private telecommunications systems based in Italy. AT&T has a 20% interest in Italtel.

Compagnie Industriali Riunite S.p.A. (CIR)–An Italian holding company with investments in information technologies, publishing, financial services and automotive components. AT&T has a 17% interest in CIR, which will be retained until at least 1994 by agreement. (See also Note (E).)

Teradata Corporation (Teradata)–A designer and manufacturer of high performance computer systems and services for large database management. AT&T has a 9% interest in Teradata. In December 1991, AT&T and Teradata signed a definitive merger agreement, subject to the approval of Teradata shareholders, for a transaction with an estimated value of $500. The merger, if consummated, would not be material to AT&T's financial condition or results of operations.

AT&T's investments accounted for by the equity method were $648 and $645 at December 31, 1991 and 1990, respectively. Investments stated at cost or at the lower of cost or market were $328 and $826 at December 31, 1991 and 1990, respectively. (See also Note (E).)

(J) Debt Obligations

Outstanding long-term debt and capital lease obligations at December 31 were as follows:

Interest Rates	Maturities	1991	1990
Debentures			
4 3/8% to 4 3/4%	1992-1999	**$ 1,300**	$ 1,300
5 1/8% to 7 1/8%	1995-2003	**1,850**	1,861
7 1/2% to 9%	1992-2031	**3,181**	2,520
Notes			
5% to 7 3/4%	1991-2014	**1,312**	1,203
7 4/5% to 8 19/20%	1991-2015	**1,033**	1,609
9% to 12 7/8%	1991-2004	**1,229**	1,492
Variable rate	1991-1999	**146**	169
		10,051	10,154
Long-term lease obligations		**292**	277
Other		**76**	238
Less: Unamortized discount – net		**41**	36
		10,378	10,633
Less: Current portions			
Long-term debt		**1,802**	1,176
Long-term lease obligations		**92**	103
Total long-term obligations		**$ 8,484**	$ 9,354

The future maturities of long-term debt at December 31, 1991 are as follows:

1992	$ 1,802
1993	675
1994	910
1995	579
1996	419
Later years	5,666
Total long-term debt	$10,051

The remaining portion of debt maturing within one year consisted principally of commercial paper, which amounted to $4,775 and $3,524 at December 31, 1991 and 1990, respectively.

In March 1990, AT&T established an Employee Stock Ownership Plan (ESOP) feature for its existing non-management savings and security plan. Under this feature, the plan's trust borrowed $550 through a private placement for a term of ten years at an annual interest rate of 7.43% and used the proceeds to purchase AT&T common stock. Because AT&T has guaranteed the trust's borrowings, they are reported as long-term debt of AT&T. The shares issued by AT&T to the trust are reflected in shareowners' equity and an amount corresponding to the borrowings (the guaranteed ESOP obligation) is reported as a reduction within shareowners' equity. As the principal amount of the borrowings is repaid, the liability and the guaranteed ESOP obligation are being reduced. AT&T recognizes expense each year based on the shares allocated method. AT&T's cash contributions are determined based on the ESOP's total debt service less dividends paid on ESOP shares. (See also Note (K).)

In June 1991, AT&T and AT&T Capital received a commitment from a consortium of 56 lenders for an $8,000 competitive advance and revolving credit facility, of which $5,000 will be available to AT&T Capital. The facility, which was unused at December 31, 1991, is intended for general corporate purposes, including support for AT&T's and AT&T Capital's commercial paper.

In December 1991 and January 1992, AT&T issued redemption notices for debentures and notes with an outstanding principal balance of $1,650 at December 31, 1991. The borrowings, with rates ranging from 8 3/8% to 9% had maturities between 1995 and 2007. The redemptions will be financed by $500 of ten-year notes and $500 of thirty-year debentures with interest rates of 7 1/8% and 8 1/8%, respectively, which were issued in January 1992, and by long-term debt issued in December 1991.

(K) Shareowners' Equity

	Common Stock	Additional Paid-in Capital	Foreign Currency Translation Adjustments	Retained Earnings
At December 31, 1988	$1,299	$ 8,796	$ 191	$ 3,419
1989				
Net income	–	–	–	3,109
Dividends declared	–	–	–	(1,389)
Shares issued under employee plans	5	104	–	20
Shares repurchased	(30)	(48)	–	(628)
Translation adjustments	–	–	(120)	–
Other changes	2	22	–	(29)
At December 31, 1989	1,276	8,874	71	4,502
1990				
Net income	–	–	–	3,104
Dividends declared	–	–	–	(1,533)
Shares issued under employee plans	17	560	–	60
Shares issued under shareowner plans	3	87	–	–
Shares repurchased	(21)	(24)	–	(454)
Translation adjustments	–	–	(21)	–
Other changes	–	–	–	(99)
At December 31, 1990	1,275	9,497	50	5,580
1991				
Net income	–	–	–	**522**
Dividends declared	–	–	–	**(1,612)**
Shares issued under employee plans	**6**	**120**	–	**34**
Shares issued under shareowner plans	**11**	**381**	–	–
Shares issued in private placement	**18**	**629**	–	–
Shares repurchased	**(1)**	**(3)**	–	**(20)**
Translation adjustments	–	–	**108**	–
Other changes	–	–	–	**95**
At December 31, 1991	**$1,309**	**$10,624**	**$ 158**	**$ 4,599**

In September 1991, NCR issued 6.3 million shares of NCR common stock in connection with the merger with AT&T. The shares were converted into approximately 17.9 million shares of AT&T common stock upon consummation of the merger. (See also Note (C).)

In March 1990, AT&T issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the non-management savings and security plan. The shares are being allocated to plan participants over ten years commencing in July 1990 as contributions are made to the plan. The proceeds from the newly issued shares of AT&T common stock are being used for general corporate purposes. (See also Note (J).)

AT&T has 100,000,000 authorized shares of preferred stock at $1 par value. No preferred stock is currently outstanding.

(L) Cash Flow Information

The following table displays the non-cash items excluded from the Consolidated Statements of Cash Flows.

	1991	1990	1989
Machinery and equipment acquired under capital lease obligations	**$114**	$ 86	$ 90
Non-cash items consolidated due to net acquisition activities			
Net receivables	**$ 3**	$ 223	$ 236
Inventories	**5**	(9)	58
Accounts payable	**(30)**	(19)	(31)
Other operating assets and liabilities – net	**55**	688	581
Short-term and long-term debt	**(4)**	(107)	(333)
Net non-cash items consolidated	**29**	776	511
Less: Issuance of common shares	–	–	24
Increase in debt maturing in one year	–	–	104
Net cash used for acquisitions	**$ 29**	$ 776	$ 383

(M) Employee Benefit Plans

Pension Plans

AT&T sponsors non-contributory defined benefit plans covering the majority of management and non-management employees. Benefits for management employees are principally based on a career average pay plan while benefits for non-management employees are based on a plan that is not directly pay-related.

Pension contributions are principally determined using the aggregate cost method and are primarily made to trust funds that are held for the sole benefit of pension plan participants. Pension cost is computed using the projected unit credit method and includes the following components:

	1991	1990	1989
Service cost – benefits earned during the period	**$ 303**	$ 303	$ 470
Interest cost on projected benefit obligation	**2,136**	2,007	1,697
Amortization of unrecognized prior service costs	**310**	218	75
Credit for expected return on plan assets*	**(2,728)**	(2,554)	(2,235)
Amortization of transition asset	**(502)**	(502)	(501)
Charges for special options	**108**	165	163
Net pension cost (credit)	**$ (373)**	$ (363)	$ (331)

*The actual return on plan assets was $7,010 in 1991, $(226) in 1990 and $6,221 in 1989.

The expected long-term rate of return on plan assets used in determining pension cost was 8.6% for 1991 and 8.5% for 1990 and 1989.

The funded status of the defined benefit plans was as follows:

At December 31	1991	1990
Actuarial present value of accumulated benefit obligation, including vested benefits of $24,511 and $22,435, respectively	**$27,003**	$24,837
Plan assets at market value	**$38,850**	$34,272
Less: Actuarial present value of projected benefit obligation	**28,361**	25,866
Excess of assets over projected benefit obligation	**10,489**	8,406
Unrecognized prior service costs	**2,272**	2,042
Unrecognized transition asset	**(4,980)**	(5,491)
Unrecognized net gain	**(4,897)**	(2,023)
Net minimum liability of non-qualified plans	**(55)**	(33)
Prepaid pension costs	**$ 2,829**	$ 2,901

The rates and assumptions used to calculate the projected benefit obligation were as follows:

At December 31	1991	1990
Discount rate	**8.0%**	8.5%
Rate of increase in future compensation levels	**5.0%**	5.0%

Prepaid pension costs above are net of pension liabilities for plans where accumulated plan benefits exceed assets. Such liabilities are included in other liabilities in the Consolidated Balance Sheets.

The unrecognized transition asset is being amortized over approximately 15.9 years. Prior service costs are primarily amortized on a straight-line basis over the average remaining service period of active employees. Plan assets consist primarily of listed stocks, corporate and governmental debt, real estate investments and cash and cash equivalents.

In 1990 and 1989, AT&T made permanent amendments to its management and non-management pension plans to make more employees service-pension-eligible with improved pension benefits. AT&T also offered special retirement options to employees who were eligible for retirement. These special retirement options were accounted for as termination benefits.

Savings Plans

AT&T sponsors savings plans for the majority of its employees. The plans allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. AT&T matches a percentage of the employee contributions up to certain limits. AT&T's contributions amounted to $279 in 1991, $287 in 1990 and $298 in 1989.

(N) Postretirement Benefits

AT&T's benefit plans for retirees include health care benefits and life insurance coverage.

The health care benefits are administered by insurance companies. The annual cost of health care benefits for retirees is the total of claims incurred in their behalf. This cost was $532, $447 and $328 for approximately 138,500, 132,300 and 110,900 retired employees in 1991, 1990 and 1989, respectively.

The cost of providing postretirement life insurance benefits to employees who meet certain age and service requirements is determined and funded primarily using the aggregate cost method. This cost was $26 in 1991, $28 in 1990 and $29 in 1989.

Under the terms of the Divestiture Plan of Reorganization, AT&T reimburses the divested Bell System operating telephone companies for a portion of their costs to provide health care benefits and increases in pensions to pre-divestiture retirees. These costs were expensed as incurred and were $125 in 1991, $108 in 1990 and $91 in 1989.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standard requires companies to accrue postretirement benefits during the years employees are working and earning benefits for retirement. Presently, AT&T expenses these benefits as the claims are incurred. The standard must be implemented no later than 1993. AT&T's initial liability upon adoption of SFAS No. 106, which can be either recorded immediately or amortized over 20 years, is expected to reduce net income and shareowners' equity by between $5,500 and $7,500. In addition, the incremental effect on employee benefit expense in the year of adoption, i.e., the excess over the "pay-as-you-go" amount, after taxes, could range from $0 to $100, assuming immediate recognition of the initial liability. While decisions regarding adoption of the standard are not final, AT&T currently expects to adopt the standard in the first quarter of 1993 and to immediately recognize the initial liability. Adoption of the standard will not affect cash flows. At December 31, 1991, AT&T had prepaid postretirement health care costs of $361.

(O) Stock Options

The AT&T Long-Term Incentive Program provides for the granting of stock options, stock appreciation rights (SARs), either in tandem with stock options or freestanding, and other awards. Under this program, 0.6% of the outstanding shares of AT&T common stock on the first day of each calendar year become available for grant in that year or in subsequent years. The exercise price of any stock option shall not be less than 100% of the fair value of the stock on the date of the grant. Exercise of either a related option or a related SAR cancels the other to the extent of such exercise.

Option transactions are shown below:

Number of Shares	1991	1990	1989
Balance at January 1	**19,658,450**	18,515,533	21,172,359
Options granted	**8,312,922**	3,962,012	1,610,866
Options and SARs exercised	**(3,101,115)**	(2,629,614)	(4,058,280)
Average price	**$19.44**	$17.08	$20.85
Options forfeited	**(219,934)**	(189,481)	(209,412)
At December 31:			
Options outstanding	**24,650,323**	19,658,450	18,515,533
Average price	**$29.85**	$24.66	$23.41
Options exercisable	**17,486,895**	14,443,237	16,230,106
Shares available for grant	**13,852,914**	31,072,034	28,931,738

During 1991, 131,640 SARs were exercised and no SARs were granted. As of December 31, 1991, 1,475,221 SARs remained unexercised and all of these were exercisable.

Prior to the AT&T and NCR merger, stock options were granted under NCR stock option plans. No new options can be granted under these plans. (See also Note (C).)

In addition, 206,139 stock options were assumed in connection with the merger with Eaton in 1989. At December 31, 1991, 46,354 of these options remained outstanding at prices ranging from $12.89 to $22.31 per share.

(P) Segment Information

Industry Segments

AT&T's operations in the global information movement and management industry involve providing long distance telecommunications services, business information processing systems, and other systems, products and services that combine communications and computers. AT&T's operations in the financial services and leasing industry involve direct financing and finance leasing programs for AT&T products and the products of other companies, leasing non-AT&T products to customers under operating leases, and being in the general-purpose credit card business. Miscellaneous other activities, including the distribution of computer equipment through retail outlets, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between industry segments are not material.

	1991	1990	1989
Revenues			
Information movement and management	**$61,705**	$61,380	$60,672
Financial services and leasing	**1,384**	811	428
	$63,089	$62,191	$61,100
Operating income			
Information movement and management	**$ 2,008**	$ 6,283	$ 5,657
Financial services and leasing	**(34)**	(117)	93
Corporate and non-operating	**(1,091)**	(1,287)	(1,019)
Income before income taxes	**$ 883**	$ 4,879	$ 4,731
Assets			
Information movement and management	**$41,307**	$38,740	$35,626
Financial services and leasing	**9,809**	7,137	4,068
Corporate assets and eliminations	**2,239**	2,445	2,493
	$53,355	$48,322	$42,187
Depreciation and amortization			
Information movement and management	**$ 3,852**	$ 3,864	$ 3,855
Financial services and leasing	**160**	100	26
Capital expenditures			
Information movement and management	**$ 3,372**	$ 3,543	$ 3,661
Financial services and leasing	**472**	462	258

Total liabilities for the financial services and leasing industry segment were $8,720, $6,239 and $3,671 at December 31, 1991, 1990 and 1989, respectively.

Geographic Segments

Transfers between geographic areas are on comparable terms and conditions with sales to external customers. The methods followed in developing the geographic area data require the use of estimation techniques and do not take into account the extent to which product development, manufacturing and marketing depend upon each other. Thus the information may not be indicative of what results would be if the operations in geographic areas were independent organizations.

	1991	1990	1989
Revenues – external customers			
United States	**$57,647**	$56,866	$56,608
Foreign	**5,442**	5,325	4,492
	$63,089	$62,191	$61,100
Transfers between geographic areas (eliminated in consolidation)			
United States	**$ 870**	$ 715	$ 645
Foreign	**884**	652	492
	$ 1,754	$ 1,367	$ 1,137
Operating income			
United States	**$ 1,578**	$ 5,675	$ 5,285
Foreign	**396**	491	465
Corporate and non-operating	**(1,091)**	(1,287)	(1,019)
Income before income taxes	**$ 883**	$ 4,879	$ 4,731
Assets			
United States	**$46,319**	$42,048	$36,527
Foreign	**5,475**	4,444	3,681
Corporate assets and eliminations	**1,561**	1,830	1,979
	$53,355	$48,322	$42,187

Foreign revenues in the table above represent revenues from AT&T's foreign-based operations. Revenues from all international activities, including these foreign revenues, revenues from international telecommunications services and export sales, provided 24% of consolidated revenues in 1991.

Business restructuring and other charges recorded in 1991 and 1990, excluding the writedown of AT&T's investment in CIR, affected only the information movement and management segment and the United States geographic segment. Corporate assets are principally cash and temporary cash investments, other short-term investments and the investment in CIR.

(Q) Commitments and Contingencies

Commitments

AT&T uses various financial instruments in the normal course of its business. These financial instruments include commitments to extend credit, letters of credit, interest rate swap transactions and foreign currency exchange contracts.

By their nature, all such instruments involve risk, and the maximum potential loss exceeds the total of contracted amounts. As is customary for these types of financial instruments, AT&T usually does not require collateral or other security from other parties to the instruments. However, because AT&T controls the credit risk of these instruments through credit approvals, limits and monitoring procedures, management believes that reserves for losses are adequate.

Commitments to Extend Credit

AT&T is engaged in the general-purpose credit card business through AT&T Universal Card Services, a wholly owned subsidiary. Under an agreement with the Universal Bank, a subsidiary of Synovus Financial Corporation that issues the cards, AT&T purchases essentially all cardholder receivables. If all cardholders had utilized their full credit, AT&T would have been obligated to purchase $28,439 of additional receivables at December 31, 1991, and $20,250 at December 31, 1990. Actual cardholder credit utilization is usually only a fraction of available credit.

Letters of Credit

Letters of credit are conditional commitments issued on behalf of customers to pay third parties in accordance with specified terms and conditions. AT&T had outstanding letters of credit of $290 and $325 at December 31, 1991 and 1990, respectively.

Guarantees of Debt

From time to time, AT&T guarantees the debt of certain unconsolidated joint ventures, principally those engaged in real estate development and management. Such guarantees totaled $283 and $118 at December 31, 1991 and 1990, respectively.

Interest Rate Swap Agreements

AT&T enters into interest rate swap agreements to manage exposure to changes in interest rates by more closely matching the maturity of its debt to that of its finance asset portfolio. The transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. The total notional principal amount of outstanding interest rate swap agreements was $1,511 and $1,024 at December 31, 1991 and 1990, respectively. In addition to the financial risk that will vary during the life of these swap agreements in relation to the maturity of the underlying debt and market interest rates, AT&T is subject to credit risk exposure from nonperformance of the counterparties to the swap agreements.

Foreign Exchange

AT&T enters into foreign currency exchange contracts, including forward, options and swap contracts, to reduce exposure to foreign currency exchange risk. AT&T had forward exchange contracts of $807 and $846, swap contracts of $312 and $403 and options contracts of $404 and $117 at December 31, 1991 and 1990, respectively.

Contingencies

In the normal course of business, AT&T is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. In the opinion of management, after final disposition, any monetary liability or financial impact to AT&T beyond that provided at year-end would not be material to AT&T's consolidated financial position.

(R) Summary Financial Data for NCR*

	1991	1990	1989
Sales and revenues	**$6,335**	$6,334	$6,002
Gross margin	**2,726**	2,851	2,764
Operating income (1)	**191**	671	723

At December 31	1991	1990
Current assets	**$2,512**	$2,570
Net property, plant and equipment	**1,229**	1,189
Other assets (2)	**1,766**	788
Total assets	**$5,507**	$4,547
Current liabilities (3)	**$2,072**	$1,943
Other liabilities and equity capital	**3,435**	2,604
Total liabilities and equity capital	**$5,507**	$4,547

*1991 data include AT&T computer operations transferred to NCR after the merger. Sales and revenues include transactions with affiliates.
(1) Reflects $182 of charges in 1991, primarily merger-related expenses.
(2) Includes $920 due from AT&T in 1991.
(3) Includes $327 due AT&T in 1991.

(S) Quarterly Information (unaudited)

Quarters	First	Second	Third	Fourth
1991				
Total revenues	**$15,274**	**$15,724**	**$15,628**	**$16,463**
Gross margin	**5,767**	**6,087**	**5,944**	**6,466**
Net income (loss)	**758**	**928**	**(1,799)**	**635**
Per common share:				
Earnings (loss)	**.59**	**.72**	**(1.40)**	**.48**
Dividends declared	**.33**	**.33**	**.33**	**.33**
Stock price*:				
High	**35 1/8**	**41 1/4**	**40 3/8**	**39 5/8**
Low	**29**	**33 5/8**	**36**	**35 1/8**
Quarter-end close	**34 1/4**	**38 1/4**	**37 1/2**	**39 1/8**
1990				
Total revenues	$14,768	$15,348	$15,524	$16,551
Gross margin	5,533	5,588	5,782	6,405
Net income	720	772	803	809
Per common share:				
Earnings	.56	.60	.62	.64
Dividends declared	.33	.33	.33	.33
Stock price*:				
High	46 5/8	44 1/8	39 1/4	35 1/4
Low	37 1/2	37 5/8	29 7/8	29
Quarter-end close	42	38 1/2	30 7/8	30 1/8

*Stock prices obtained from the Composite Tape.

Because of changes in the weighted average number of shares outstanding each quarter, the sum of quarterly earnings per common share may not equal the earnings per share for the year and the quarterly impact of unusual items may differ from the per-share impact reported for the year.

In the second quarter of 1991, a gain on the sale of an investment increased net income by $87 or $.07 per share. Business restructuring and other charges reduced net income by $2,647 or $2.06 per share in the third quarter and $177 or $.14 per share in the fourth quarter.

Total revenues for quarters previously reported have been restated due to the reclassification of access and other interconnection costs. Access and other interconnection costs for the first through fourth quarters were, respectively, $4,688, $4,624, $4,575 and $4,508 for 1991, and $4,586, $4,699, $4,615 and $4,672 for 1990. In addition, data have been restated as a result of the merger with NCR in September 1991. (See also Notes (B) and (C).)

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results.

The financial statements, which reflect the consolidated accounts of AT&T and subsidiaries, and other financial information shown were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel.

To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions.

Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of Directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent auditors meet privately with the Audit Committee. These auditors also have access to the Audit Committee and its individual members at any time.

The financial statements in this annual report have been audited by Coopers & Lybrand, Independent Auditors. Their audits were conducted in accordance with generally accepted auditing standards and include a consideration of the internal control structure and selective tests of transactions. Their report follows.

Alex J. Mandl
Chief Financial Officer
and Group Executive

R. E. Allen

Robert E. Allen
Chairman of the Board
and Chief Executive Officer

Report of Independent Auditors

To the Shareowners of American Telephone and Telegraph Company:

We have audited the consolidated balance sheets of American Telephone and Telegraph Company (AT&T) and subsidiaries at December 31, 1991 and 1990, and the related consolidated statements of income and cash flows for the years ended December 31, 1991, 1990 and 1989. These financial statements are the responsibility of AT&T's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AT&T and subsidiaries at December 31, 1991 and 1990, and the consolidated results of their operations and their cash flows for the years ended December 31, 1991, 1990 and 1989, in conformity with generally accepted accounting principles.

Coopers & Lybrand

1301 Avenue of the Americas
New York, New York
January 23, 1992

Board of Directors

Robert E. Allen
Chairman of the Board and
Chief Executive Officer, AT&T

M. Kathryn Eickhoff
President,
Eickhoff Economics Inc.

Walter Y. Elisha
Chairman and
Chief Executive Officer,
Springs Industries, Inc.

Louis V. Gerstner, Jr.
Chairman and
Chief Executive Officer,
RJR Nabisco Holdings Corp.

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Owner,
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President,
IRC Group,
Educator and former U.S. Ambassador to the United Nations

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Columbia University

Franklin A. Thomas
President, The Ford Foundation

Randall L. Tobias
Vice Chairman of the Board, AT&T

Joseph D. Williams
Chairman
of the Executive Committee,
Warner-Lambert Co.

Gilbert P. Williamson
Chairman and
Chief Executive Officer,
NCR Corporation

Thomas H. Wyman
Chairman,
United Biscuits (Holdings)
U.S. Ltd. and former
Chairman and Chief Executive
Officer, CBS Inc.

In 1991 several distinguished members of our Board of Directors retired. Our thanks and best wishes go to James H. Evans, Juanita M. Kreps, Morris Tanenbaum and Rawleigh Warner, Jr., who retired in April, and to Edward G. Jefferson, who will retire in April 1992.

Management Executive Committee

Robert E. Allen
Chairman of the Board and
Chief Executive Officer

Richard S. Bodman
Senior Vice President
Corporate Strategy
and Development

Harold W. Burlingame
Senior Vice President
Human Resources

Robert M. Kavner *
Group Executive
Communications Products

Marilyn Laurie
Senior Vice President
Public Relations and
Employee Information

Alex J. Mandl *
Chief Financial Officer
and Group Executive

William B. Marx, Jr. *
Group Executive
Network Systems

John S. Mayo
President
AT&T Bell Laboratories

Victor A. Pelson *
Group Executive
Communications Services

Randall L. Tobias
Vice Chairman of the Board

Gilbert P. Williamson *
Chairman and
Chief Executive Officer,
NCR Corporation

Sam R. Willcoxon
Group Executive
International

John D. Zeglis
Senior Vice President
General Counsel and
Government Affairs

*Also a member of the Operations Committee

Roger F. Davis
Vice President and
Controller

S. Lawrence Prendergast
Vice President and
Treasurer

Robert E. Scannell
Vice President
Law and Secretary

The Management Executive Committee leads the development and implementation of AT&T's vision, mission and strategic intent. The Operations Committee, established in July 1991, oversees execution of policies and strategies established by the Management Executive Committee.

Shareowner Services
The address for writing to us and some phone numbers will change after May 22, 1992, when First Chicago Trust Company of New York becomes our shareowner services agent.

Before May 22
For help with questions about your AT&T account, records or dividend payments, call us toll-free at 1 800 348-8288. Persons using a telecommunications device for the deaf (TDD) or a teletypewriter (TTY) may call 1 800 855-1155. From outside the United States, call us collect at 904 737-1933.

You may write to us and send securities for transfer to:
AT&T
c/o American Transtech
P.O. Box 45048
Jacksonville, FL 32232-5048

American Transtech also maintains an office in New York City at 22 Cortlandt Street, Room 1043, to which banks and brokers may deliver certificates for transfer.

After May 22
Our toll-free number remains the same: 1 800 348-8288. Users of TDDs or TTYs may call 1 800 822-2794. From outside the United States, call us collect at 212 791-0311.

Our mailing address will be:
AT&T
c/o First Chicago Trust Co. of NY
P.O. Box 3994
New York, NY 10008-3994

The address to which banks and brokers may deliver certificates for transfer will be 30 West Broadway in New York City.

Dividend Reinvestment
The Dividend Reinvestment and Stock Purchase Plan provides owners of 10 or more shares of common stock a convenient way to purchase additional shares. If interested, call us or write for a prospectus and enrollment form.

Investor Relations
Security analysts and other members of the professional financial community are invited to contact AT&T Corporate Investor Relations with questions. Call 908 221-2464.

Stock Data
AT&T is listed on the New York Stock Exchange. The ticker symbol is "T." AT&T also is listed on the Boston, Midwest, Pacific and Philadelphia stock exchanges in the U.S., and on stock exchanges in Brussels, London, Paris, Geneva and Tokyo.

Shareowners of record (as of December 31, 1991): 2,426,354

Annual Meeting
The 107th Annual Shareowners Meeting will be held 9:30 a.m., Wednesday, April 15, 1992, at Market Hall, 2200 Stemmons Freeway, in Dallas.

General Information
For help with general questions or comments, write to:
Vice President-Law and Secretary
AT&T
32 Avenue of the Americas
New York, NY 10013-2412

Form 10K (AT&T's annual report to the Securities and Exchange Commission), AT&T Capital Corporation's annual report and a report on AT&T's commitment to affirmative action in the workplace are available at no charge by writing:
Secretary's Department
AT&T Shareowner Relations
32 Avenue of the Americas
New York, NY 10013-2412

A report on AT&T philanthropy in 1990 and 1991 is available from:
AT&T Foundation
Department A.R.
P.O. Box 1430
Wall, NJ 07719

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